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ABSTRACT

This document contains testimony and prepared statements from the Congressional hearing called to review program operations of the section 202 Direct Loan Program, a federal housing effort for the elderly and handicapped. Witnesses include the Deputy Assistant Secretary for Multifamily Housing, U.S. Department of Housing and Urban Development (HUD); and a panel of witnesses consisting of the chairman of the Housing Committee, American Association of Homes for the Aging; two partners of a Dallas-based consulting firm that specializes in assisting nonprofit sponsors in working with the section 202 program; and the director of housing for the National Council of Senior Citizens. Specific program problems are discussed, HUD's efforts to solve problems are examined, and additional policies that might improve the effectiveness and efficiency of the program are proposed. The effects of federal policy and funding changes are reviewed. A brief overview of how the section 202 program evolved is given, and funding for projects aiding the elderly and the nonelderly handicapped is explained. The appendix contains questions from committee members and answers from the Assistant Secretary of HUD, including a list of section 202 projects canceled since 1980. (NRB)

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SECTION 202: PRESENT PROBLEMS—PROPOSED ALTERNATIVES

HEARING

BEFORE THE

SUBCOMMITTEE ON HOUSING AND CONSUMER INTERESTS

OF THE

SELECT COMMITTEE ON AGING HOUSE OF REPRESENTATIVES

NINETY-EIGHTH CONGRESS

SECOND SESSION

APRIL 11, 1984

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SECTION 202: PRESENT PROBLEMS—PROPOSED ALTERNATIVES

WEDNESDAY, APRIL 11, 1984

HOUSE OF REPRESENTATIVES,
SELECT COMMITTEE ON AGING,
SUBCOMMITTEE ON HOUSING AND CONSUMER INTERESTS,
Washington, DC.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2212, Rayburn House Office Building, Hon. Don Bonker (chairman of the subcommittee) presiding.

Members present: Representatives Bonker, Hammerschmidt, Evans, and Ridge.

Staff present: Rebecca Beauregard, staff director; Gretchen Sorensen, research assistant; Nancy Mulry, staff assistant; Pat Lawrence, minority staff director; and Chris Green, minority research assistant.

OPENING STATEMENT OF CHAIRMAN DON BONKER

Mr. BONKER. The committee will come to order.

This is the Subcommittee on Housing and Consumer Interests of the House Select Committee on Aging, and today the subcommittee is meeting for the purpose of reviewing section 202 program operations.

Through the testimony this morning we hope to learn more about specific program problems and HUD's efforts to solve them. Some of our witnesses will propose additional policies that they believe could improve the effectiveness and efficiency of the program.

The section 202 Direct Loan Program for the elderly and handicapped is one of the more popular and successful of the Federal Government's housing efforts. Since its revamping in 1974, over 95,000 units of section 202 elderly housing have been constructed, with an outstanding record of only one foreclosure.

Section 202 satisfies more than the basic need for shelter. Special design features such as congregate space, nonslip floors, lower shelves, and emergency call systems are incorporated into these housing projects. A supportive environment is created where social, physical, and emotional needs can be met without jeopardizing one's independence.

The section 202 program is of immeasurable value to older Americans. But it's also important to the Federal Government. Through this and other programs we can help avoid the unnecessary placement of frail individuals in costly institutions.

Today's hearing is being held in response to concerns expressed by aging and housing constituencies about the section 202 programs' growing inability to function as Congress intended under current HUD policies.

Since this administration took office in 1981, it has proposed and implemented several policy changes to reduce section 202 program costs. Now, I think everybody on this panel can agree that cost reduction ought to be an imperative in any Federal housing program. But what is disturbing is the one-sided burden HUD has placed on section 202 sponsors to achieve savings. The burden has become so great that many of us have begun to seriously question the administration's commitment to the production of housing under this program.

We are particularly disturbed by the Department's lack of attention to problems relating to fair market rents, interest rates, and processing time.

I think this is an appropriate time to mention that as chairman of the subcommittee I am sending a letter to GAO which will request an evaluation of the process used to select sponsors for participation in the section 202 program.

Last year HUD changed the system under which section 202 funding applications are weighted and ranked. Prior to this change all applications were rated and ranked by HUD's area offices and then sent to Washington, DC, for final selection. These final selections were made taking into consideration other national goals as well as the area offices' technical ratings.

Under HUD's this new selection procedure, project applications are rated by the area offices. Then they are submitted to one of the 10 regional offices where they are rated once again. At that time the regional administrator can assign a rating of up to 10 additional points per application for overall feasibility of a project.

Unfortunately, there are no guidelines in place for use by the regional administrator in applying the 10 additional points. Thus, latitude exists for some political consideration for any one of a variety of reasons. I'm not necessarily making this charge, but it is a potential problem not only for this administration but future administrations using this selection system.

During these past several months my subcommittee staff has received several complaints about new project selection procedures. The most serious of these involves the alleged selection of projects on a political rather than merit basis.

I think the best way to handle this situation is to submit requests to GAO asking for an evaluation of these new procedures. Perhaps the witnesses this morning from the administration can enlighten us on the new procedure.

And that brings us to our first witness, who is one of HUD's Deputy Assistant Secretaries. We were to have Assistant Secretary Maurice Barksdale, but, I understand he is ill. He will be replaced today by Deputy Assistant Secretary Silvio DeBartolomeis. I hope that's the right pronunciation. If not, the witness can correct me, or maybe Mr. Hammerschmidt has a better grasp of the Italian language and he can help me.

I would like to at this time call upon the distinguished ranking member of this subcommittee, Mr. Hammerschmidt, for any opening comments he may have.

STATEMENT OF REPRESENTATIVE JOHN PAUL HAMMERSCHMIDT

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Mr. Chairman, I think that it's an excellent idea to convene this hearing on the section 202 program. Since its revision in 1974, this has been one of HUD's most successful housing production programs, providing about 100,000 units for low and moderate income handicapped and older persons. Because of the enormous cost, HUD requested and Congress authorized the elimination of the section 8 new construction program and new public housing starts. In general, HUD has stated that there is no longer a need for more section 8 new construction or public housing, because efficient rental housing is on the market.

HUD maintains that the principal problem is housing affordability, and that what is needed instead is a housing payment program.

In its fiscal year 1985 budget and in the 4 previous years, HUD has requested 10,000 units of section 202. This is, however, almost 30 percent less than the 14,000 units for which Congress has appropriated funds. The overall decrease in Federal housing production, the small number of section 202 units requested, and some decisions made by HUD in the last few years, have given rise to questions about HUD's commitment to continuing a viable production program for elderly and handicapped housing. These decisions include the original cancellation policy, problems with increased 202 interest rates, and insufficient fair market rent increases.

We have convened this hearing so that we can gain a better sense of HUD's commitment to the 202 program. There are some intrinsic problems with the program, such as the 1984 expiration of the 9¼ percent interest rate. We are, therefore, interested in hearing HUD's concepts on how this program must be changed to remain feasible to produce housing for low and moderate income elderly and handicapped persons.

Mr. Chairman, I would note this morning that we have a distinguished member of the full committee with us, Mr. Cooper Evans, who has a decided interest in the activities of this subcommittee. Welcome to this subcommittee hearing, Cooper.

And I would also like to join you in welcoming Mr. DeBartolomeis to our committee, in lieu of Mr. Barksdale, and welcome all of our witnesses whom we're going to hear from later. Thank you, Mr. Chairman.

Mr. BONKER. Thank you, Mr. Hammerschmidt.

Mr. Evans, do you have any opening comments?

Mr. EVANS. No remarks.

Mr. BONKER. Welcome to the committee this morning.

Mr. DeBartolomeis, if you would begin. You may submit your full statement for the record and summarize it for the subcommittee, or you may read your entire statement.

STATEMENT OF SILVIO DeBARTOLOMEIS, DEPUTY ASSISTANT SECRETARY FOR MULTIFAMILY HOUSING, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. DEBARTOLOMEIS. Thank you very much. As you know, Mr. Barksdale is in the hospital and is having some tests taken and has asked that I step in instead.

I am pleased to have the opportunity to testify before the subcommittee and to discuss the section 202 program for the elderly and handicapped housing. As you know, this program is one of the oldest and most successful programs the Department operates. It is a key component of HUD's efforts to address elderly housing needs, efforts which are reflected not only in the subsidized housing programs such as public housing, section 8, and section 202, but in the insured housing and our institutional programs as well.

At this time HUD and the administration are taking steps to provide a new approach to basic rental housing assistance. Our move toward housing vouchers underpins a strategy to develop efficient subsidy mechanisms and to make as full use as possible of the existing rental housing stock on the private market. We are moving away from the traditional production-oriented subsidy programs of the past simply because they are too expensive.

Nevertheless, we continue to recognize the special nature of and unique need for housing designed for the elderly and handicapped. This is the reason that we intend to continue the production of subsidized elderly housing under section 202 at the same time that we are terminating or phasing out other subsidy programs for new construction. I believe this clearly helps to demonstrate our commitment to the elderly.

You have asked me to give you a brief overview of how the section 202 program evolved, and I am glad to do this. The section 202 program was authorized by the Housing Act of 1959. The program provided direct Federal loans at below market interest rates, generally 3 percent, for the construction or substantial rehabilitation of rental housing for the elderly or handicapped, whose incomes were above the level set for admission to public housing, but below that needed to pay rents for adequate private housing. No new loans were reserved under the original section 202 program after 1970, because it was superseded by the section 236 Rental Housing Assistance Program enacted in 1968. It was felt that elderly needs could be met through the interest subsidies provided under section 236. As you know, in 1973 the then current subsidy programs underwent intense reevaluation. All subsidized programs, including section 236, were subject to a moratorium. Again, the needs of the Nation's elderly were reviewed in conjunction with existing housing programs.

The Housing and Community Development Act of 1974 revived and revised the section 202 program for the elderly. The act made several key changes including: One, providing for direct loans based on Treasury's average borrowing rate on all debt, plus an allowance to cover administrative costs, and two, directing that the program be utilized in conjunction with the section 8 Housing Assistance Payments Program, by requiring that the availability of

monthly assistance payments under section 8 be considered when determining project feasibility and marketability.

The form of the program now is familiar to most of you. Section 202 provides direct loans to private, nonprofit organizations, sponsoring the construction or rehabilitation of rental or cooperative housing for the elderly or handicapped. These projects also receive section 8 subsidies to enable low-income households to afford the rents. The housing projects must be designed to provide access to an assured range of necessary services for their occupants. These services may include health facilities, continuing education, recreation, counseling, referral services, transportation to social services, and programs to encourage and assist occupants to use the services and facilities made available. Projects also may include essential services facilities such as dining facilities or multipurpose community rooms.

Also, section 202 funds are used for nonelderly handicapped projects. Funds are provided for housing which can be utilized to demonstrate innovative methods of meeting the special needs of the nonelderly handicapped by providing a variety of housing options ranging from small group homes to independent living complexes. Such housing is required to provide for access to the residential community at large, including employment opportunities.

The Housing and Community Development Act of 1980 changed the definition of development costs for the 202 program to permit the acquisition of existing housing and related facilities with or without moderate rehabilitation, for the purpose of providing group homes for the nonelderly handicapped. By authorizing the purchase of existing housing requiring little or no rehabilitation, the supply of eligible properties should be increased and processing time reduced. We also believe that community acceptance of projects for the handicapped should be enhanced, since few changes in the exterior of such acquired homes usually should occur in their conversion to group homes.

I should also remark on two other aspects of the program. First, section 106(b), nonprofit sponsor assistance loans, can provide a portion of the startup funds which many nonprofit sponsors lack for such expenses as legal and consulting fees, organizational expenses, preliminary site engineering architectural fees and site control. These loans are interest free and may be used to cover the cost of planning the construction and rehabilitation of section 202 projects.

Second, the Congregate Housing Services Program is being conducted in existing and newly constructed section 202 projects on a demonstration basis. It was started in 1980 pursuant to authority provided in the Housing and Community Development Amendments of 1978. The demonstration program includes full meal services, and those additional supportive services such as housekeeping aid, personal assistance or other services deemed essential for temporarily disabled, handicapped elderly, or other handicapped persons to maintain independent living standards and aid in preventing premature or unnecessary institutionalization. The Hebrew Rehabilitation Center for the Aged, in Boston, is now conducting an evaluation of the cost-effectiveness of this type of care compared to

the cost of traditional institutionalization. The evaluation is due for completion in December of this year.

In summary, the section 202 program has been both durable and responsive to a wide range of elderly needs. Since reactivation of the program in 1976 through fiscal year 1983, almost $6 billion has been reserved, representing 2,451 projects, and 147,070 units. For fiscal year 1983, 322 projects, with 14,035 units, received fund reservations for $633.3 million. Approximately $666 million—estimated to finance the development of 14,000 units—will be available for fund reservations in fiscal year 1984.

You have asked me to note the operational problems of the section 202 program and the steps the Department has taken to overcome them. I should state that in general we have viewed the section 202 program as working exceptionally well. We have taken steps to improve it at various times and I will describe some of these efforts.

First, we have always felt that cost containment should be an important aspect of our subsidized housing programs, and section 202 is no exception. Our research has indicated that in terms of development costs, the section 202/8 program tended to be on the high side relative to other programs. This has created relatively high direct subsidy costs and has led us to look at appropriate measures to reduce these costs. In 1982, the Department revised its policies and procedures in order to promote cost containment in approved new construction and substantial rehabilitation projects. The measures undertaken include: One, a prohibition on the use of excessive amenities—for example, swimming pools, balconies, saunas, jacuzzis and dishwashers; two, a prohibition on the use of unusual building configurations; three, a limitation on the size of units and the number of bathrooms; four, a minimum requirement for 25-percent efficiency units; five, a prohibition on the use of two-bedroom units, except for managerial units, and for projects designed for nonelderly handicapped households; and six, an increased proportion of funds used for actual dwelling use as opposed to commercial space.

We have been successful in our efforts. Per unit development costs have been reduced, and we see evidence that these costs have been held at or slightly above the inflation rate over approximately the last 7 years. This is important because it can reduce our overall direct subsidy costs. In this regard, I should note that the life cycle subsidy costs of the program, which account for both direct and indirect subsidies, tend to be lower relative to other subsidized production programs due to the absence of tax-related subsidies. Efforts to contain development costs, then, can magnify this advantage. And I should state this categorically, cost containment measures and the reduction in external amenities have not and will not adversely affect either the quality of construction or of living space provided for this Nation's elderly citizens. When we first issued our cost containment notice in November 1981, we made it abundantly clear that cost containment does not mean that HUD will tolerate cheap construction, poor workmanship or inadequate design.

One issue that has been associated with our cost containment efforts is our stance on competitive bidding.

Competitive bidding has been part of the Federal Government's general effort to obtain the best services for the lowest cost to the

taxpayer. It is vitally important that this tool for achieving economy be used to maximize the use of scarce subsidy dollars in the production of assisted housing, in order to provide the greatest possible number of housing units for the elderly.

Recent legislation, now being implemented by HUD, requires competitive bidding only when project loan amounts exceed $2 million or when the projects exceed 110 percent of the new construction fair market rents; or when the project is sponsored by a labor organization it is exempted from competitive bidding. Therefore, if cost benefits truly exist in the development team approach, they should be reflected in rents that do not exceed the fair market rents. The loan amount exemption excludes a significant portion of the projects. For example, 215 of the 322 projects which received fund reservations in fiscal year 1983 are under the $2 million level.

In 1983, HUD made a special study of 12 projects that have used the competitive bidding process. All projects were subjected to regular HUD estimate of costs. Competitive bidding was used to obtain a general contractor rather than the usual method of negotiation. The results show that 759 units were built at an average savings of $3,837 per unit. The average savings per project were $242,662, for a total savings from all 12 projects of $2,911,952. By using the dollars saved, the number of units constructed could have been increased by 8 percent. This clearly is the most efficient use of budget resources for the section 202 program.

A second improvement in the program has resulted from changes over several years in the selection review process. Prior to 1978 the review process for the selection of sponsors was focused on the sponsor's experience, including organizational capacity and financial strength. The procedure was carried out entirely by central office.

In 1978, the rules for selection were put into handbook form and the responsibility for sponsor review and selection was transferred to the field. At this time a rule was instituted requiring the availability of a specific site for elderly projects. This requirement did not apply to projects for the handicapped.

In 1982, in order to assure greater uniformity in selection standards used in the field, central office developed a standard ranking sheet to be used by all field offices. A 100-point selection standard system was instituted. Experience of the sponsor counted for 20 points; financial capacity for 30 points; site location counted for 15 points; items relating to cost containment—for example, design—counted for 30 points; and displacement and relocation made up the remaining 5 points.

Last year we changed the system to include 10 points for regional administrators to use as an indicator of overall feasibility. This year, a more specific justification is being required for the awarding of these 10 points.

Thus, the selection process is updated each fiscal year to reflect program improvements. Applicants are notified annually of revisions in submission requirements, ranking criteria, and selection procedures.

Third, we have established an extension policy for our subsidized projects, including this program. This policy was necessary because of scarce subsidy funds and the large number of projects languish-

ing in our pipeline, causing increased construction costs each year and not providing housing for the intended occupants. In March 1982 and July 1983, field offices were given explicit guidance on the conditions under which extensions could be granted. Prior to March 1982, extensions beyond the initial 18-month period to reach start of construction were routinely granted without adequate justification. The March 1982 instruction included timetables for projects reserved in fiscal year 1980, and prior years. Additional allowances were made for projects in litigation and projects for the nonelderly handicapped. A memorandum reiterating these policies will be issued soon to all our field offices.

The July 1983 instructions further refined the Department's extension policy. Projects reserved in fiscal year 1981 were expected to reach start of construction within 18 months unless: One, the project was for the nonelderly handicapped and was selected without a site. Such projects could receive 6-month extensions from the field office; two, the project was subject to HUD-caused delay or, three, the project was subject to litigation. Although this policy may be viewed as restrictive, it is important to note that units stuck in the pipeline provided no one with housing. Only constructed units do so.

When fund reservations are canceled, section 8 funds can then be awarded to more feasible projects. Section 202 funds recaptured from prior years' reservations may not be reused.

In closing, I would like to reiterate that the Department considers the section 202 program to be one of its most effective and believes it to be working exceptionally well in providing cost-effective housing assistance for the groups it's intended to serve.

I hope I have answered your request for information, both about the history of the program and also in regard to improvements the Department has made in its policies and operations since it was initiated.

If there are further questions, we shall be very happy to provide additional information.

Mr. BONKER. I thank you Mr. DeBartolomeis for your testimony. I assume that what you have just read was the statement that was to have been presented by Mr. Barksdale.

Mr. DEBARTOLOMEIS. That is correct, sir.

Mr. BONKER. OK. I think the record ought to reflect this fact.

You heard in my opening comments that I intend to write GAO asking for an evaluation of HUD's new rating system. You did touch upon this change in your statement.

I don't think anybody can take issue with the need for a rating system. The point breakdown looks fairly adequate to me.

Last year HUD changed the system to give 10 points to the regional administrators for their discretionary use.

Now, under the previous system, an area office would make its recommendation to the Washington, DC, office after which final determinations would be made. Under the new procedure, applications also are submitted to 1 of the 10 regional offices where the point system is applied and the administrator can include the 10 points, based on overall feasibility.

Are we led to believe that the regional administrator, in effect, has the final say on projects within his region?

Mr. DEBARTOLOMEIS. I wouldn't say that they have the final say. The prior selection process had the field offices making the point determinations and forwarding them to the regional administrators for a review. Those were then submitted to the central office where we made another review, to assure that all of our policies and procedures were followed.

As we have the program now, the field offices make recommendations, point recommendations, which are on the rating sheets. They make those recommendations to the regional administrator's staff.

Mr. BONKER. When you say "make recommendations," does that mean that the field office actually assigns the points?

Mr. DEBARTOLOMEIS. That is correct, sir.

Mr. BONKER. So, the field office does that work?

Mr. DEBARTOLOMEIS. Yes, they do a portion of that work, that is correct.

Mr. BONKER. So the points are then applied, except for the 10 points? The 30 points for financial capability, the 20 points for experience of the sponsor, those points are actually applied by the local office, or the regional office?

Mr. DEBARTOLOMEIS. That portion of the process has not been changed. Essentially, what the field offices do is put the points for the borrower's capacity, which the maximum is 20, the borrower's financial capacity, the maximum is 30, location, site, neighborhood, that maximum point value is 15. The modest design, cost containment, that point value is 25.

On the form that we have, which I could send you a copy of, if you don't have, the standard ranking criteria format, there is a place for the field office score and the overall rating on the slot. There is another place for the regional office to go over it and to ensure that the area office did the proper——

Mr. BONKER. Now. when you say "ensure", if the area office had on a particular application, 25 points for financial capability and the regional director felt that it should be 20 points, could he change those points or does he have another column where he inserts his own recommendations?

Mr. DEBARTOLOMEIS. He can revise it to a certain extent——

Mr. BONKER. So, he can change the pointing system on applications that are submitted by the field office?

Mr. DEBARTOLOMEIS. A very minor amount, without——

Mr. BONKER. Well, can he?

Mr. DEBARTOLOMEIS. He does have the authority to change the points. Let me tell you a little bit more about what the rationale is behind that. We have found that in some area offices, within a same regional jurisdiction, will give more points for the same borrowing sponsor, and give more points for financial capacity than another office would.

What the regional administrator is trying to do is to ensure an even administration of the policy within the region.

Mr. BONKER. Yes, but if I were a head person in a field office and I did a careful and fair job of evaluating an application, submitted it to the regional office where they don't have the same intimate knowledge of that project, and they substantially revised the points, I would wonder why I was doing it. Won't it become discour-

aging at some point to go through this process only to have it tampered with by the regional administrator?

Mr. DEBARTOLOMEIS. I don't look at it as tampering. I look at it in terms of monitoring to make sure that the policies are administered in an even fashion.

Mr. BONKER. Well, you do more than monitoring. I think you are evaluating, you are reviewing, and you are changing the point allocations. And then beyond that, the regional administrator has a 10-percent bonus that he can apply, at his own discretion. He can really pretty much call the shots from the regional office. Is that the intent? If that's HUD's intent, that's all right.

Mr. DEBARTOLOMEIS. I don't look at it in terms of tampering. I do look at it in terms of administering the program on an even basis and the evaluation of the project. As I said, the area office does make the recommendations and the regional office takes those recommendations into consideration. The regional office staff make the final point determination.

Mr. BONKER. Let me ask you this: We all know that the regional administrator is a political appointee, and that the field office staff people are more or less permanent employees of the Federal Government. How do you avoid a situation, not only in this administration but future administrations, in which the regional administrator, who is political, can just overturn what are seen as important and fair decisions by the field office for political considerations?

How do you avoid this if you allow so much discretion by the regional administrator?

Mr. DEBARTOLOMEIS. It's not a blanket discretion. As the program has been modified this last fiscal year, we do require justifications for any deviations resulting in a change of more than 5 points from the sum of the field office score on criteria 1-4. With regard to the 10 points that the regional administrator has for overall feasibility, some of those points are used to ensure that cost containment in evenly administered, as well as give credit to applicants.

Mr. BONKER. Let's talk about the 10 points. You say in your statement that this year a more specific justification is being required. What do you mean by "more specific justification"? What is your intent?

Obviously HUD feels a little uncomfortable about the regional administrator having full discretion, that perhaps he ought to have some criteria or at least some accompanying written remarks providing more specific justification for the 10 points. What would you ask of the regional director in terms of specific justification for the 10 discretionary points?

Mr. DEBARTOLOMEIS. Sir, on the 10 points, what we're looking for in terms of the overall feasibility, is to make sure that cost containment is administered in an even manner. As far as minority business enterprise goals, we do have those goals in each region.

Mr. BONKER. Are these going to be specific criteria?

Mr. DEBARTOLOMEIS. Are you saying at specific points?

Mr. BONKER. Well, you are throwing out some statements and I am wondering how those statements are going to be translated into policy for the regional administrators. Have you sent them a list of

certain considerations or factors that ought to be considered in the process of assigning the 10 points?

Mr. DEBARTOLOMEIS. I don't know if we sent any formal instructions to the field.

Mr. BONKER. Then how would you know?

Mr. DEBARTOLOMEIS. I have just been informed by our Deputy Assistant Secretary for Policy and Budget that Assistant Secretary Barksdale has discussed with the regional administrators what those 10 points should be.

Mr. BONKER. A list of criteria?

Mr. DEBARTOLOMEIS. That's correct.

Mr. BONKER. Can you submit those for the committee record?

Mr. DEBARTOLOMEIS. I don't have a formal 10 point list. I will provide you with a copy of that information.

Mr. BONKER. But can you read them off now? You can bring anyone else to the witness table.

Mr. DEBARTOLOMEIS. Let me just state that I would be glad to provide you with some information on what we're looking for on the overall feasibility. I don't have that with me right now. I don't have the benefit of knowledge of what Mr. Barksdale discussed with the regional administrators. I have just been informed that he did discuss with the regional administrators what we're looking for in those 10 points and in terms of what justifications we'd like to have. The regional administrators do have the authority to assign up to 10 point.

[The following information was subsequently received from Mr. DeBartolomeis:]

The granting of up to 10 points under this criterion is based on an overall evaluation of the project by the Regional Administrator. Factors that could generate high ratings under "overall feasibility" might include elements such as: (1) a modestly priced site which is ideally located in terms of the needs of the clientele to be served; (2) a functionally efficient design which is well within cost containment guidelines; (3) commitment by the sponsor/borrower to put outside resources or services into the project over and above those normally provided; (4) the project is to be located in an area of acute need, and reflects unusually strong community support; (5) the project is sponsored by a minority organization; (6) the project includes innovative features that will enhance the quality of service to be provided to the proposed residents. For fiscal year 1984, Regional Administrators are required to provide documentation in support of their ratings under Criterion No. 5.

Mr. BONKER. Well, if you could have Secretary Barksdale provide to this committee the criteria that should be the basis upon which regional directors assign their 10 points, I think we'd be terribly grateful.

Mr. DEBARTOLOMEIS. Yes, sir.

Mr. BONKER. Mr. Hammerschmidt?

Mr. HAMMERSCHMIDT. Thank you, Mr. Chairman.

Let me just comment a little bit further along the same line as the chairman. I don't worry so much about possible political considerations at the regional level, vis-a-vis, decisions made at the area administrators' level. But I do have some concern about the knowledge and expertise that resides at the regional level versus the area level. I think that the area level people know a lot more about the projects, and I think within that framework we have some concerns about the criteria for awarding an additional 10 points by the regional office and I'd just make that comment for the record.

Mr. DeBartolomeis, since we are no longer constructing new public housing units under section 8, other than what's in the pipeline, and the private sector's not building many lower and moderate income housing units, I wonder about your request for 10,000 units. Or am I correct in saying that HUD has requested 10,000 units for this year? I noticed in your testimony you say that approximately $666 million, estimated to finance the development of 14,000 units, will be available for fund reservations in fiscal 1984. But yet is your request for 10,000 units?

Mr. DEBARTOLOMEIS. Yes, sir. In fiscal year 1985 we have a budget proposal which requests $500 million in budget authority for 10,000 units, as we have done so for the last 3 years. I do further understand that each year you have given us a little bit more than those 10,000 units requested, and I don't recall us complaining about it.

Mr. HAMMERSCHMIDT. So that reflects a budget consideration rather than, probably, the real need that's out there; is that correct?

Mr. DEBARTOLOMEIS. That is our budget proposal, sir.

Mr. HAMMERSCHMIDT. On page 10 of your testimony you state that when fund reservations are canceled, funds can be awarded to more feasible projects. In fact, you say in your testimony that units stuck in the pipeline provide no one with housing. Only constructed units do. Which I certainly would agree with.

Then you say further, "When fund reservations are canceled, funds can then be awarded to more feasible projects." Well, when our staff of this committee met with HUD last week, they were told that when a 202 project does not go to construction, those funds are lost. Further, they were told that 4,000 units were recaptured in 1982 and 1983, and I wonder if you could comment on that and tell us how many units of section 202 has HUD recaptured since 1980? If you could provide us with some reasons for the recapture and provide the subcommittee with a breakdown of these figures, including whether it was elderly or handicapped and the number of recaptures per field office.

The part of that you would like to respond to now verbally I would accept, and if you want to supply the rest for the record, we would accept that as well.

[The following information was subsequently received from Mr. DeBartolomeis:]

There are several reasons for fund reservations being cancelled. Most cancellations prior to fiscal year 1982 were a result of a decision by the Borrower to relinquish the fund reservation. Such a decision could result from loss of a site, a financial requirement that the Borrower could not meet, community opposition, or a variety of other reasons. Since January 1982, many cancellations have been initiated by the Department as a result of failures on the part of Borrowers to meet established deadlines. Borrowers failed to meet deadlines for a variety of reasons, such as loss of the site, cost problems, inability to meet cash requirements, community opposition, loss of the contractor, inexperienced consultants, etc.

Mr. DEBARTOLOMEIS. With regard to the statement that I made this morning, on page 10, I noticed an error before I came down, in the formal statement, and the statement that I believe was distributed to you, there is a minor change.

As I have said in the testimony this morning, when a fund reservation is canceled, section 8 funds can then be awarded to more

feasible projects. Section 202 funds, recaptured from prior years' reservations, may not be reused. That was an amendment that I caught this morning. The section 8 funds that are recaptured do go to fund the fiscal year 1984 202 projects.

Mr. HAMMERSCHMIDT. Fine. Then would you provide us with the other information for the record?

Mr. DEBARTOLOMEIS. Yes, sir, I'd be glad to provide you with information on our recaptures, from 1980 forward in terms of breakdown between elderly housing or handicapped.

Mr. HAMMERSCHMIDT. OK.

In your commendable efforts to create cost savings in the program, through competitive bidding, I noticed that you put down the amount of savings at $3,837 per unit, and so on and so forth. Could you give us the average cost of the units in those 12 projects, those 759 units?

Mr. DEBARTOLOMEIS. Well, they have a mortgage amount ranging between $2 million and $7 million. I don't have that exact figure for you right now.

Mr. HAMMERSCHMIDT. Could you provide that per unit cost for the record?

I notice you have figures concerning other projects in your statement. I think it would be helpful if we knew what those were costing per unit.

Mr. DEBARTOLOMEIS. I'd be glad to do that, yes, sir.

[The following information was subsequently received from Mr. DeBartolomeis:]

COMPETITIVE BIDDING—DATA

Projects	Amount	Unit cost and savings
BOSTON		
Hebrew Rehab Center for the Aged (HRCA)—160 units—1983, project No. 023-EH190:		
Negotiated contractor's price (2328)	$7,344,800	
Low bid [1]	5,895,035	$36,843 per unit cost.
Difference	1,449,765	$9,061.03 per unit savings.
Percent reduction is 19.7 percent		
Newton Jewish Community—1000 units—1983 project No. 023-EH184:		
HUD estimate (2326)	4,030,552	
Low bid	3,812,376	$38,124 per unit cost.
Difference	218,176	$2,181.75 per unit savings.
Percent reduction is 5.4 percent.		
LOS ANGELES		
San Bernardino Plaza—148 units—1979, project No. 122-EH017:		
HUD estimate (2326)	6,400,000	
Low bid	5,800,000	$39,189 per unit cost.
Difference	600,000	$4,054.05 per unit savings.
Percent reduction is 9.4 percent.		
DES MOINES		
Comprehensive System—12 units—1980, project No. 074-EH004:		
HUD estimate	280,978	
Low bid	278,928	$23,244 per unit cost.

COMPETITIVE BIDDING—DATA—Continued

Projects	Amount	Unit cost and savings
Difference	2,950	$170.83 per unit savings.
Percent reduction 0.7 percent.		
Herritage Village Apts—50 units—1981, project No. 074–EH039:		
HUD estimate	1,893,124	
Low bid	1,779,902	$35,599 per unit cost.
Difference	113,222	$2,264.44 per unit savings.
Percent reduction 5.98 percent.		
Mount Carmel Apts—50 units—1981, project No. 074–EH041:		
HUD estimate	1,380,226	
Low bid	1,365,579	$27,312 per unit cost.
Difference	14,647	$292.94 per unit savings.
Percent reduction 1.06 percent.		
Cedar River Towers—85 units—1982, project No. 074–EH054:		
HUD estimate	3,263,579	
Low bid	3,096,278	$36,427 per unit cost.
Difference	167,301	$1,968.24 per unit savings.
Percent reduction 5.12 percent.		
Camelot Square—20 units—1982, project No. 074–EH034:		
HUD estimate	562,355	
Low bid	427,400	$21,370 per unit cost.
Difference	34,955	$1,747.75 per unit savings.
Percent reduction 24 percent.		
Howard Activity Center—18 units—1982, project No. 074–EH051:		
HUD estimate	425,682	
Low bid	387,461	$21,526 per unit cost.
Difference	38,221	$2,123.38 per unit savings.
Percent reduction 8.97 percent.		
P.I. Foundations—39 units—1982, project No. 074–EH053:		
HUD estimate	926,380	
Low bid	860,923	$22,075 per unit cost.
Difference	65,457	$1,678.38 per unit savings.
Percent reduction 7.06 percent.		
Nishna—27 units—1982, project No. 074–EH043:		
HUD estimate	479,362	
Low bid	470,812	$17,438 per unit cost.
Difference	8,550	$316.66 per unit savings.
Percent reduction 1.78 percent.		
Hershey Manor—50 units—1983, project No. 074–EH066:		
HUD estimate	1,877,129	
Low bid	1,777,521	$35,551 per unit cost.
Difference	99,608	$1,992.16 per unit savings.
Percent reduction 5.3 percent.		
Total bids		$25,17[illegible]3[illegible]4.
Total units		759.
Average per unit [2]		$33,1[illegible]1.
Savings		$3,83[illegible]
Percent savings		8.6 percent.

[1] Negotiated contractor bid during competitive bidding was $1,242,700 below negotiated price.
[2] Includes only construction costs; excludes cost of land, "soft" costs such as fees, interim financing, et cetera.

Mr. HAMMERSCHMIDT. What has the Department done formally to correct the lengthy time periods for processing 202's in some of the field offices?

Mr. DEBARTOLOMEIS. We have focused a great deal on the lengthy time it has taken some of our offices to process these 202 applications. One of the things that we have done is to prepare notices that go out to the field to more clearly enunciate our policies in terms of processing and to put an added priority and emphasis on processing these in a timely matter.

Also, I understand that last year, before I was Deputy Assistant Secretary, then Assistant Secretary Abrams convened sort of a strike force, if you will, of Deputy Assistant Secretaries that went out to the field to push these proposals that were in the area office through the various stages of processing.

I further understand that these people were granted the ability to grant waivers necessary to allow these projects to proceed. So as you can see, by convening such a high level policy group and with the interest of the Assistant Secretary, with our added notices, we are making every effort to reduce the time it takes to process these projects in the field. We do recognize that there is a problem. It's something that we're working on. We realize that there is a lot of room for improvement. But we are addressing the need and I think that we will see some improvements in the near future.

Mr. HAMMERSCHMIDT. Well, speaking just provincially, I think that our processing time in Arkansas is about 13 months, which is pretty good. But I have seen studies that indicate the overall average time is 21 to 23 months, which is too long, of course, I would think, to administer that program.

Mr. DEBARTOLOMEIS. Also, some of the time studies that I've seen indicate that it does take a long time. A lot of the studies do not necessarily take into account delays that are caused by the sponsor. There are some times when they are not willing to change a site, they would much rather go through a lengthy process in terms of trying to fix up this site to make it meet the tests and those sorts of things, as well as cost containment. Some people did not realize that we were very serious about our extension policy and cost containment.

Those delays that are sometimes caused by the sponsor are things that I think, when you look at a study, you should take a look at the delays that are not HUD-caused delays. I admit that there are HUD-caused delays but there are also delays on the other side too.

Mr. HAMMERSCHMIDT. I wonder, is there a general attitude out there that there is an adversarial relationship between HUD and the sponsors, or do you have a good, cooperative relationship? Are you making an effort to see that there is good communication?

Mr. DEBARTOLOMEIS. I am unaware of any adversarial relationship or attitudes. We have worked very diligently in the past to try to establish this relationship between the field staff and the sponsor organizations, by having special meetings with the people to let them more fully understand what our policies and procedures are, and to try to help them through the process, because many of these sponsors are not all that sophisticated. I have seen notices that we have sent out to the field and I would also encourage fostering a

relationship between the field staff and the sponsor organizations, and I think it's very healthy for the program.

Mr. HAMMERSCHMIDT. All right. Mr. Chairman, I just have one more question before I yield back to you. Mr. DeBartolomeis, a letter was sent recently to Secretary Pierce from the American Association of Homes for the Aging which said that housing sponsors are finding it difficult to finance new projects because of the limits imposed by fair market rents. It is said that a new HUD rule bases fair market rents on data that do not mirror the true costs associated with specialized housing for the elderly and the handicapped.

I wonder if you would respond to that.

Mr. DEBARTOLOMEIS. Yes, sir; I may lean on my staff a little bit because they understand a little bit more about it.

Mr. HAMMERSCHMIDT. Sure. You may bring anyone up that you care to.

Mr. DEBARTOLOMEIS. But first I would just want to state that for the most part all 202 projects are able to proceed within the fair market rents. Very few have problems that cannot be solved within the 126 percent, which is the statutory maximum. As you know, the section 202 rents are based on 105 percent of the section 8 new construction substantial rehabilitation fair market rents, are based on 105 percent of those for each market area. We do have the authority to go up to 126 percent of the section 8 new construction sub. rehab. fair market rents.

Some of the projects in specific areas that have a soft market, market areas where there is an overabundance of housing, and I might add that these are very spotty instances—I do know of an area in Oklahoma that did have a problem, and also down in region IV, I believe, in Atlanta, they had another problem.

When they have these soft market rent areas the rents, the comparables are very low and thereby the section 8 fair market rents are low. But the 202 mortgages are based upon the amount of cost to develop the project. So it becomes a bit more difficult to base it on market-oriented comparables in a soft market. I believe these instances are few and far between. However, we do have procedures within the Department to alleviate this by coming in and requesting an exception for moving, pumping up the fair market rents, above what they currently are.

Mr. HAMMERSCHMIDT. In other words, if a Member of Congress calls down there and says, "We don't think this program is working well because of that impediment," you have a mechanism down at the Department that takes another look at the fair market rents in that area?

Mr. DEBARTOLOMEIS. Yes, we do have a mechanism that can take a look at that, and we'd be glad to look at that on a spot basis. But I do believe it has to be published in the Federal Register, and it does take a certain amount of time. There have to be a great deal of justifications but we do have a procedure for that.

Mr. HAMMERSCHMIDT. Thank you, sir.

Mr. DEBARTOLOMEIS. You're welcome.

Mr. BONKER. Thank you, Mr. Hammerschmidt.

Mr. DeBartolomeis, let me ask a few additional questions. One concerns HUD's cancellation policy, and what we sense is the need for necessary extensions from time to time because of the number

of obstacles that must be overcome to complete a project. In January of 1982 HUD sent out a telegram to their field offices stating that there would be no future extensions except in cases where litigation was involved or in cases where HUD is guilty of an error or a project delay. Now, had that policy been fully implemented, I'm informed that it would have canceled 93 percent of the projects that were in the pipeline. However, HUD did revise its policy, on February 8 and, then again, on March 4, so there was actually a minimal cancellation of projects in the pipeline. Now, when the administration does something like this without prior notice, without allowing time for public comment, without alerting people who are involved in this whole program, you understandably create a lot of convulsions within the affected constituencies. I don't think our committee staff was notified before the initial cancellation policy was developed.

I guess I have two questions. First, why was such a drastic policy developed back in January of 1982? Second, since you have scaled down, pretty much, its impact, what do you see as some of the benefits, of this new cancellation policy or any policy of not allowing extensions? I guess a final question concerns the fact that we have to be realistic about these applications. Sometimes there are necessary delays. Are we imposing unrealistic timeframes for processing these applications?

Mr. DEBARTOLOMEIS. As I understand—you're referring to the January 1982 memorandum?

Mr. BONKER. Yes

Mr. DEBARTOLOMEIS. I think that was later rescinded and there was a March 4——

Mr. BONKER. Was it rescinded entirely or just modified on subsequent occasions?

Mr. DEBARTOLOMEIS. I believe it was modified by the March 4 memorandum. I do have a copy of it. It does speak to the recapture policy. Essentially, when a section 202 project is funded, the date of fund reservation, the sponsors have 18 months to get that project under construction start, and they are allowed a 6-month extension beyond that period. That's 2 years to allow a project to get——

Mr. BONKER. Let me ask you, I'm sorry to interrupt, but the 18-month period is now HUD's current policy. What is the statutory requirement for a timeframe in processing applications?

Mr. DEBARTOLOMEIS. Eighteen months.

Mr. BONKER. Well, this is not policy. This is statute?

Is it or is it not statutory policy?

Mr. DEBARTOLOMEIS. Mr. Wilden could give you some more information.

Mr. WILDEN. It is not statutory; it's regulatory. The 18 month and 24 month requirement was imposed, I believe, in the original regulations for the 202 program when it was revised in 1976.

Mr. BONKER. Well, you're pretty much free to establish whatever timeframe you feel is necessary for the processing of these projects.

Mr. WILDEN. Yes.

Mr. BONKER. So, you have now set the time period of 18 months. What happens if, in the process, between the field office and the regional office, and the headquarters back here, there are delays that are not directly related to a sponsor?

Mr. DEBARTOLOMEIS. We take those into consideration, sir. We have—what I have seen in my time—we have expressed a great deal of compassion for sponsors. We have met with numerous sponsors in terms of finding out why their projects have not succeeded in reaching construction start, and if they have a good case, we have often extended the 24-month deadline.

Mr. BONKER. Hold it, hold it. Let's see, 18 months——

Mr. DEBARTOLOMEIS. Eighteen months plus the six months.

Mr. BONKER. Plus the 6. So you have a 6-month waiver, if you will.

Mr. DEBARTOLOMEIS. Yes.

Mr. BONKER. But then you can even go beyond that. So it's all fairly arbitrary. If there are some applications upon which you look with disfavor, you can probably kill them. If there are applications that you look upon with favor, you can extend them.

Mr. DEBARTOLOMEIS. I don't look at it as arbitrary. I think we look for delays that were clearly above and beyond their control. I think we have a very rational process to look at the projects.

Mr. BONKER. Are there any criteria you use? You're talking about projects that are well along. They can be extended or terminated because of delays. I have to tell you that as a resident Congressman, and I'm sure Mr. Hammerschmidt will agree, administrative discretion by Federal agencies is very important. It's the sort of thing that keeps us reelected, because through it we are able to help those who are having problems with Federal agencies. We need flexibility, I don't question that. But we want fairness and reason to accompany discretionary judgments.

Mr. WILDEN. The context——

Mr. BONKER. Could you identify yourself for the record, sir?

Mr. WILDEN. Yes. Robert Wilden.

Mr. BONKER. Your position?

Mr. WILDEN. Director of the Assisted Elderly and Handicapped Housing Division, which administers 202.

The context in which the telegrams to which you referred were issued, January, February, March, of 1982, was a time in which, and prior to which, the regulatory requirement with regard to the 18 months had not been seriously enforced. In essence, the only 202 reservations canceled were those where the borrower came into the Department at some point and said, "We can't do the project, and therefore we're relinquishing the reservation."

It was a time in which construction costs had gone up substantially. We still had projects in the pipeline that were reserved in 1976 and 1977. I think it's fair to say that what happened in those early months of 1982 was an attempt to get the attention of the borrowers, which, in fact, it did.

Mr. BONKER. I'm sure.

Mr. WILDEN. The way the policy is administered at this point is that the borrower has the initial 18 months. If the project was selected for the handicapped without a site, the field office may extend that another 6 months.

In all other instances, the field must come to headquarters for the 6-month extension.

Now, any part of 800 in the regulations can be waived. So it is possible to waive the regulation with regard to the 24 month limit.

Generally, that is done when one of a series of things happens, either: First, the project has been in litigation, second, the project has been submitted for firm commitment and, in fact, a closing is in sight in the near future, or third, where the HUD office itself has been responsible for the delay or the Department has been responsible for the delay. For example, one year it took us about 3 months to get an interest rate established. We, in effect, considered that HUD delay in dealing with cases that came in for extension.

As a matter of fact, there has not been this dramatic, wholesale cancellation. I believe in the letter to you that went out about a month ago it was indicated that between 800 and 900 units were canceled, as of the end of last year, during the last fiscal year. So that's by way of explanation.

Mr. BONKER. Well, thank you very much. That helps with my understanding.

I have one final question. On page 7 of your testimony, the last paragraph, first sentence, last word, I will quote the sentence: "Recent legislation now being implemented by HUD requires competitive bidding." Was that a mandate or a mandated requirement? I thought the legislation allowed the agency to call for competitive bids rather than mandating competitive bids.

Mr. DEBARTOLOMEIS. The decision to mandate competitive bids was made by HUD. The legislation does specifically set certain limitations that are required for competitive bidding.

Mr. BONKER. So the statute does not mandate competitive bidding?

Mr. DEBARTOLOMEIS. That is correct. However it does allow us to proceed with competitive bidding. It does set out limitations.

Mr. BONKER. I think this is a distinction that should be noted.

OK, Mr. Hammerschmidt, any further questions?

Mr. HAMMERSCHMIDT. Mr. Chairman, I don't have any further questions right now but I would like to perhaps submit three or four questions to which HUD could respond for the record.

Mr. DEBARTOLOMEIS. Sir, I would be glad to respond to those questions.

[See appendix, p. 63 for questions and answers.]

Mr. HAMMERSCHMIDT. Thank you very much.

Mr. BONKER. Thank you very much for coming.

I'd like to now call up the three other witnesses who are here to testify today, Terril J. Young of the American Association of Homes for the Aging, Patrick Conroy of Conroy & McIver, Diana McIver, the same organization, and Jim Womack of the National Council of Senior Citizens.

I think we shall proceed in the order in which people were announced. Ms. Young, you may proceed. I think if it's all right with Mr. Hammerschmidt, we'll have each of you give your testimony and then open for questions. I hope, given the length of some of the statements, that you can find a way to abbreviate your remarks so that we will have some time for questions by the committee members.

Ms. Young, welcome to the committee. You may proceed.

A PANEL OF WITNESSES, CONSISTING OF TERRIL J. YOUNG, CHAIRMAN, HOUSING COMMITTEE, AMERICAN ASSOCIATION OF HOMES FOR THE AGING, WASHINGTON, DC; PAT W. CONROY, PARTNER, AND DIANA McIVER, PARTNER, CONROY & McIVER, DALLAS, TX; AND JAMES L. WOMACK, DIRECTOR OF HOUSING, NATIONAL COUNCIL OF SENIOR CITIZENS, WASHINGTON, DC

Ms. YOUNG. Thank you.

Mr. Chairman and members of the subcommittee, I am Terril J. Young, director of Housing Management for the Housing Authority of the city of Boulder, CO. I am testifying on behalf of the American Association of Homes for the Aging which, for purposes of shortening my presentation I will refer to as AHA, where I am currently a member of the executive board and serve as chair of the housing committee. I am also representing the Ad Hoc Coalition for Housing for the Elderly, an alliance of 31 national organizations dedicated to the preservation and growth of the section 202 Elderly Housing Program.

On behalf of these two organizations I would like to thank the subcommittee for conducting hearings on critical administrative problems confronting the section 202 program. The Subcommittee on Housing and Consumer Interests, and the Select Committee itself, have been closely linked with the section 202 program and have been instrumental in keeping the housing needs of older Americans before the Congress.

In particular, I want to acknowledge the efforts of Chairman Bonker and Congressman Hammerschmidt in blocking the efforts of HUD to sell off 202 projects.

As has been acknowledged here this morning, the section 202 program has been one of the Federal Government's most successful housing efforts. It has produced high quality, durable housing for the elderly and handicapped in more than 1,600 facilities, under both the original section 202 and the revised program now in operation.

I understand the interest and concern involved with the selection process for 202 projects, and I believe the consultants here from the firm of Conroy & McIver can address those concerns.

My position is to reflect on other issues which we believe are equally serious.

There have not been defaults on mortgage obligations in the 202 program and few have experienced the financial and management difficulties experienced by other Federal housing programs. I am reminded especially of the original 202 program and how simple it was and how good it was to administer.

Mr. BONKER. Those were simpler days, Ms. Young.

Ms. YOUNG. Yes, they were. Would that we might return to them.

One of the concerns that we have in the changes that have been made in 1974, in tying the 202 project with the section 8 program is, one, the deep subsidy commitment that has to be made and, two, the increased administrative cost by the sponsor.

Section 202 facilities have been successfully developed and operated in every part of the country and in every type of setting. They

have proven to be as appropriate for small towns and rural communities as they are for large cities and urban areas. Equally significant, the program has succeeded without a great deal of prior experience on the part of housing sponsors, and without excessive payments or any profits to developers, builders, or investors. The sponsors of section 202 housing are, as you know, by law, nonprofit organizations created for the specific purposes of developing and operating housing facilities.

Many sponsors are affiliated with religious, fraternal, or charitable organizations and all are dedicated to the goal of providing decent housing and a quality living environment for elderly and handicapped persons.

In the membership of AAHA, which now numbers almost 2,300 members, housing is provided by 1,300 of those members, and 600 of those facilities were built under the section 202 program.

As the cornerstone of Federal housing policy for the elderly and our only Federal housing construction program at the present time, the section 202 program should be continued and expanded. Equally important, however, is the need to assure that the program and the high quality product the program represents are not compromised by shortsighted and improper administrative policies.

In recent months the Department of Housing and Urban Development has published a variety of proposed rules and notices that make substantive changes in the guidelines and procedures of the section 202 program. Any of these changes, taken separately, would be cause for concern. Some of them have prompted critical letters to HUD and even protests from Congress. What is not fully recognized is that a combined effect these changes will have on the purpose and operation of the section 202 program.

In combination, HUD's proposals could significantly alter the substance of section 202 and make it increasingly difficult, if not impossible, for nonprofit sponsors to use the program to provide quality housing for the constituency they are committed to serve.

The policy changes that HUD has implemented or are proposing include the following: And I believe most of these were not alluded to in the testimony given to you this morning by the representatives of HUD. They are: A reduced contract rent adjustment. December 1983 proposed regulations changed the basis for computing annual adjustments in the section 8 contract rents, and further indicated that they would be applied retroactively to all section 202 and section 8 projects.

Revised project cancellation guidelines have been discussed in some detail this morning and we share your concern in this area.

Reduced fair market rents: February proposed regulations indicate that fair market rents which serve as guides for new housing construction are being lowered in many areas of the country, lower than they have been at prior levels, and using techniques that we seriously consider whether they are valid or not.

Higher loan interest rate: HUD's February document, again, indicates the Department's intention to raise the 202 loan interest rate from the current 9½ percent to at least 10.3 percent during fiscal year 1985.

Restricted funding for construction change orders: This policy came out in January. It's a notice that indicates that HUD will not

allow the cost of change orders for unanticipated, and I repeat, unanticipated increases in construction costs to be paid from the proceeds of section 202 loans where the project sponsors do not select a general contractor through competitive bidding.

Project design restrictions. Recent program guidelines require that 25 percent of the units in a proposed facility be efficiency units, restrict the size of efficiency and one bedroom units, and reduce the amount of common space that can be included in a facility.

AAHA does not stand for a policy or a philosophy that accepts warehousing elderly residents, and when you begin to tell older people exactly how much space they are going to have, deny them the right to a bedroom, and indicate that you will take away the community space that has for so many years been a hallmark of the 202 program, you are beginning to talk about loss of quality of environment.

The low-income occupancy requirements that HUD will soon publish will require that 95 percent of the units in newer, that is, since 1981 section 202 facilities, be occupied by very low income tenants.

This is to be that 95 percent of residents shall not have incomes in excess of 50 percent of the median income in the statistical reporting area in which that facility is located. We would then have a resident mix in older facilities that would be changed to 75 percent very low income, but 25 percent of the incomes between 50 and 80 percent of the median income.

The change would end the prior policy of permitting market rate renters in up to 10 percent of the units of the older facilities.

The shift to an increasing portion of lower income residents could bring serious financial difficulties for many older projects. The long-term operating budgets of these facilities were developed with the idea that higher resident rent payments could be received. Rather than increasing section 8 payments to cover this projected loss of operating revenue, HUD is now offering only lower section 8 rents and reduced annual rent adjustments. Unless additional support is provided, many of these older projects will experience financial difficulty, with some going into default.

Of these issues that I have outlined, those that cause us the greatest concern contribute to the growing discrepancy between the revenues that HUD will provide or allow for a section 202 project, and the rising cost of constructing and operating housing to the traditional standards.

The recent reduction in new construction fair market rents places additional pressures on the financial feasibility of most section 202 projects.

For its part, HUD is offering a way to help reduce this discrepancy, by requiring smaller and lower cost units, as well as reduced spending for common space and other amenities. As we have indicated, however, we do not accept this, as we believe that it severely alters the quality of life for the people who live in these units.

There is another consideration that most of the people that we have talked to have difficulties with the regional offices, and that is in the area of requiring that 25 percent of the project be in efficiency units. There are many areas in the country that have enor-

mous problems marketing these units, and when you have a system that does not allow you to have flat r[illegible] that an efficiency unit could rent for less than a one be[illegible], then you're going to have marketing difficulties, and that is experienced by many of the AAHA members.

The financial restraints imposed by the lower fair market rents become particularly critical in light of the proposed increase in the section 202 interest rate for next year. The higher interest rate represents a substantial increase in project costs that then must be reflected in higher fair market rents.

In order to accommodate the increased section 8 assistance, HUD has provided little indication that it intends to change their rent schedule to meet these higher costs.

Without increased revenues, either from higher rent payments or Federal subsidies, the higher costs represented in increased debt payments will make it almost impossible to build section 202 housing in many parts of the country. Most applications could be rejected outright on the basis of project feasibility. This would result in an administrative reduction of the section 202 program, despite the clear intent of Congress that the current program be continued.

While we are deeply concerned with these and other administrative policies that make future use of the section 202 program increasingly impractical, we are also troubled by more fundamental long-term change that threaten to transform and destroy the program.

We view as particularly alarming actions by both the Congress and HUD that restrict section 202 facilities to lower income residents and reduce both the cost and quality of the facilities. With such actions we are shutting out millions of potential residents once commonly referred to as "the near poor."

We are telling those who can and want to pay their own way that they will not be permitted to. In section 202, as elsewhere in Government policy, we are putting persons of one income group into competition with those of a lower or a higher income group. One of the strengths of the section 202 program has been its ability to minimize such differences and permit residents to find a common basis of understanding and shared problems of aging.

I fear we are attempting to transform the section 202 program into a targeted version of the section 8 program, ascribing to it the problems and political liabilities of that broader program.

We are now trying to achieve too many objectives with this limited program. We cannot use it to meet the special needs of the elderly, house the poor, and extend increasing assistance to the physically disabled and the chronically mentally ill. The program cannot meet all these demands without losing its essential character or compromising its standards of quality. Such actions threaten to undermine the broad basis of support for the program and set in motion the same process that brought an end to the section 8 and public housing programs for new construction.

AAHA and the ad hoc coalition would like to urge this subcommittee and the Congress in general to closely review these and other administrative changes in the section 202 program, to judge whether they are warranted on program or budgetary grounds, or whether they constitute administrative efforts to curtail the pro-

gram. We would urge action to hold the section 202 interest rate at the current 9.5 percent, and we urge action on the Lundine-Heinz proposal or other legislative initiatives that seek to address many of these problems through reforms in the current section 202 program.

[The prepared statement by Ms. Young follows:]

STATEMENT OF TERRIL J. YOUNG

Mr. Chairman, and Members of the Subcommittee. I am Terril J. Young, Director of Housing Management for the Housing Authority of the City of Boulder, Colorado. I am testifying on behalf of the American Association of Homes for the Aging (AAHA), where I am currently a member of the Executive Board and serve as Chair of the Housing Committee. I am also representing the Ad Hoc Coalition for Housing for the Elderly, an alliance of thirty-one national organizations dedicated to the preservation and growth of the Section 202 elderly housing program.

On behalf of these two organizations, I would like to thank the Subcommittee for conducting hearings on critical administrative problems confronting the Section 202 program. The Subcommittee on Housing and Consumer Interests, and the Select Committee itself, have been closely linked with the Section 202 program and have been instrumental in keeping the housing needs of older Americans before the Congress.

While the Section 202 housing program represents only a small portion of the facilities serving elderly housing needs, it is what we often think of when we hear the phrase "housing for the elderly." The program has set the standard of excellence in housing design, in service, and, most importantly, in the quality of life for the elderly and handicapped persons it serves.

The Section 202 program has been one of the Federal government's most successful housing efforts. It has produced high quality, durable housing for the elderly and handicapped in more than 1600 facilities under both the original Section 202 program and the revised program now in operation. Few, if any, of these facilities have defaulted on their mortgage obligations to the Federal government, and few have experienced the financial and management difficulties experienced by other Federal housing programs.

Section 202 facilities have been successfully developed and operated in every part of the country and in every type of setting. They have proven to be as appropriate for small towns and rural communities as they are for large cities and suburban areas. Equally significant, the program has succeeded without a great deal of experience on the part of housing sponsors and without excessive payments or any profits to developers, builders or investors. The sponsors of Section 202 housing are, by law, nonprofit organizations created for the specific purposes of developing and operating housing facilities. Many sponsors are affiliated with religious or charitable institutions, and all are dedicated to the goal of providing decent housing and a quality living environment for elderly and handicapped persons.

If the program has any weakness, it has been its limited scale. New units constructed under the program assist only a small segment of our rapidly growing elderly population. The funding requested in the Administration's FY 1985 budget would provide less than half the 20,000 units recommended by the 1981 White House Conference on Aging as the minimum annual Section 202 commitment needed to keep pace with this rising demand. Assistance to the elderly under other housing programs has been significantly curtailed of eliminated, leaving Section 202 as the only Federal program designed to meet the urgent need for new rental housing.

ADMINISTRATIVE CHANGES

As the cornerstone of Federal housing policy for the elderly, and our only Federal housing construction program, the Section 202 program should be continued and expanded. Equally important, however, is the need to assure that the program, and the high quality product the program represents, are not compromised by shortsighted and improper administrative policies.

In recent months the Department of Housing and Urban Development (HUD) has published a variety of proposed rules and notices that make substantive changes in the guidelines and procedures of the Section 202 program. Any of these changes, taken separately, would be cause for concern. Some have prompted critical letters to HUD and even protests from Congress. What is not fully recognized is the combined

effect these changes will have on the purpose and operation of the Section 202 program. In combination, HUD's proposals could significantly alter the substance of Section 202 and make it increasingly difficult, if not impossible, for nonprofit sponsors to use the program to provide quality housing for the elderly and handicapped.

The policy changes HUD has implemented or is proposing include the following.

Reduced contract rent adjustments.—HUD published regulations in December 1983 proposing to change the basis for computing annual adjustments in Section 8 rents for CPI-linked fair market rents to market data reflecting increases in operating costs. This revised process for computing rent increases, and its application only to that portion of project rents representing operating costs, would be applied retroactively to all Section 202/8 facilities, despite provisions in the 1981 Housing Act Amendments limiting such changes to projects with contracts signed after October 1981.

From a broad policy perspective, any effort to make rent adjustments more reflective of actual increases in annual operating costs is certainly appropriate and advisable. From a practical standpoint, however, the change will significantly reduce project revenue over time and place an increasing number of Section 202 facilities in financial difficulty. This is particularly true of projects with extremely tight operating budgets or declining reserve accounts. For such projects, substantially reduced rent increases in the middle or later years of Section 8 contracts would force sponsors to cut reserves to dangerously low levels or postpone expenditures that could jeopardize a project's physical plant and its quality of services.

The adverse effect of this policy change could be significantly increased if the data HUD uses to determine local cost increases is based on housing that is not comparable with assisted elderly housing facilities or not reflective of costs actually incurred by such facilities. To date, HUD has not provided detailed information as to how the problem of "comparability" will be addressed.

Strict project cancellation policies.—In January, HUD published notices revising its funding recapture and project cancellation policies. In addition to imposing strict project cancellation deadlines on Section 8 and Public Housing projects, the notice reaffirmed a prior, but unenforced HUD rule that would cancel Section 202 projects that had to be constructed within 18 months of receiving a funding reservation. The notice was accompanied by explanations that extensions beyond these deadlines would be extremely difficult to obtain and would be approved only where delays could be attributed to HUD.

HUD is now enforcing the 18-months cancellation deadline despite the fact that the average processing time for a Section 202 project currently exceeds 23 months. For some HUD area offices, processing of elderly facilities has exceeded 30 months, while handicapped projects sometimes take more than 40 months to go to construction. At a time when HUD's policies and procedures are changing and when HUD staff has been significantly reduced, it is clearly inappropriate for the Department to impose more strict cancellation deadlines on a program that was designed to permit an extended development schedule because of the nonprofit status of the housing sponsors.

Reduced construction rents.—In February HUD published a proposed rule revising its schedule of Fair Market Rents that serve as a revenue guide for new construction or substantial rehabilitation projects. In a major departure from past policy, HUD adjusted rents downward for many categories of housing units in many market areas. In the past it either increased the fair market rent or held it at the prior year's level.

A major problem with this change is the fact that HUD included data in its area market surveys that reflected broader economic conditions that have little relationship to the rents paid in assisted elderly housing facilities, and even less to do with the actual costs associated with new construction and substantial rehabilitation. Use of this data resulted, for example, in rent decreases for efficiency units in five-story structures of as much as $97 per month in Detroit, or $73 and $40 per month for similar units in Birmingham and Buffalo. Similar reductions for one-bedroom units in similar structures amounted to $56 in Columbus, Ohio, $64 per month in Miami or $106 per month in Flint, Michigan. A striking point in the revised schedule is the fact that rents for efficiency units were reduced in many market areas despite the fact HUD is not requiring sponsors to include an increasing number of such units in their proposed projects.

Even in the majority of market areas that receive small one or three-percent increases, housing sponsors will find themselves hard-pressed to construct quality housing facilities. An increasing number of Section 202 projects already must exceed the fair market rent limits by ten percent or more. With development costs continuing to increase by at least the rate of inflation, and with the new rent limits apply-

ing to all construction through the end of fiscal year 1985, an increasing number of Section 202 sponsors will find that projects will not be feasible next year without substantial increases in revenue above the limits set in HUD's fair market rent schedule.

Increased section 202 interest rates.—In its recent FY 1985 budget documents, HUD has interpreted Congress' one-year limitation on the Section 202 interest rate as a signal to increase the rate during fiscal year 1985. HUD's proposal would raise the rate to the anticipated level of average Treasury borrowing for the current year, which it optimistically estimates as being 10.3 percent. Given recent increases in bank interest rates, it is possible that the rate will be considerably higher.

For the past three years Congress has frozen the Section 202 loan rate at 9.25 percent to prevent it from rising as high as 11.75 percent. At this level, few if any Section 202 projects would be economically feasible, unless substantial increases in Section 8 payments were permitted to offset the higher debt financing costs. At this point, there is no indication that either HUD or Congress will make additional Section 8 funds available to offset the higher project debt costs that will result from the proposed rate increase.

Mandatory competitive bidding.—HUD has recently issued a policy notice indicating that funding for change orders to cover unforeseen problems during construction would not be provided for Section 202 projects where sponsors had not selected general contractors through competitive bidding. The change would have the effect of requiring Section 202 sponsors to use competitive bidding in selecting contractors, since few nonprofit organizations can pay these additional costs from their own resources and few contractors will accept this open-ended financial liability.

HUD is implementing this indirect approach to requiring competitive bidding despite the fact Congress agreed to permit sponsors to select a contractor by whatever method they thought appropriate once they met one of three statutory requirements. While competitive bidding can help to reduce development costs under certain circumstances, it can also increase significantly the "up front" costs that must be paid by project sponsors and add considerably to the processing time required to complete a project. Mandating competitive bidding would also remove the needed technical expertise and early assistance that is often made available to small nonprofit organizations through a close partnership with a local contractor.

Cost containment requirements.—In its recent notices outlining requirements for submission of proposals for the current Section 202 loan competition, HUD imposed a number of new restrictions intended to reduce project development costs. The notice indicated that 25 percent of the units in each project must be efficiency units. It also reduced prior limits on the size of efficiency and one-bedroom units and restricted the amount of space sponsors can devote to common areas of congregate space.

HUD is imposing these new restrictions despite the fact that efficiency units already pose marketing problems for most Section 202 facilities and most residents generally require more, rather than less living space. The elimination of common space also runs contrary to resident preference and contradicts the essential intent of Section 202 to provide a preferred and more enjoyable living environment.

Low income occupancy requirements.—HUD is now in the process of developing rules to implement changes in Section 202 occupancy limits in accordance with provisions adopted by Congress in 1981 and 1983. Under these rules, 95 percent of the units in newer, post-October 1981 facilities must house residents with very low incomes, those with incomes below 50 percent of area median income. Older, pre-October 1981 projects will be required to meet a 75 percent requirement for very low income residents, with the remaining 25 percent consisting of individuals with income between 50 percent and 80 percent of area median income.

Eliminated in the new project composition guidelines is HUD's policy of permitting older projects to fill up to ten percent of their units with individuals able to pay market rents. This alters a prior emphasis on integrating a broad sampling of the area's elderly population within a single facility.

The shift to an increasing portion of lower-income residents could bring serious financial difficulties for many older projects. The long-term operating budgets of these facilities were developed with the idea that higher tenant rent payments would be received. Rather than increasing Section 8 payments to cover this projected loss of operating revenue, HUD is now offering only lower Section 8 rents and reduced annual rent adjustments. Unless additional support is provided, many of these older projects will experience financial difficulty, with some going into default.

MAJOR POLICY CONCERNS

Of the issues I have outlined, those that cause us the greatest concern contribute to the growing discrepancy between the revenues HUD will provide or allow for a Section 202 project and the rising cost of constructing and operating housing to the traditional standards of the Section 202 program. The recent reduction in new construction fair market rents places additional pressures on the financial feasibility of most Section 202 projects. For its part, HUD is offering a way to help reduce this discrepancy by requiring smaller and lower-cost units, as well as reduced spending for common space and other amenities. This approach, however, serves to reduce the quality of the housing provided under Section 202 and undermines the standards of design and service that have characterized the program.

The financial restraints imposed by the lower fair market rents become particularly critical in light of the proposed increase in the Section 202 interest rate next year. The higher interest rate represents a substantial increase in project costs that must be reflected in higher fair market rents in order to accommodate increased Section 8 assistance. HUD has provided little indication that it intends to change their rent schedule to meet these higher costs.

Without increased revenues, either from higher rent payments or Federal subsidies, the higher costs represented in increased debt payments will make it almost impossible to build Section 202 housing in many parts of the country. Most applications could be rejected outright on the basis of project feasibility. This would result in an administrative reduction of the Section 202 program, despite the clear intent of Congress that the current program be continued.

While we are deeply concerned with these and other administrative policies that make future use of the Section 202 program increasingly impractical, we are also troubled by more fundamental long-term changes that threaten to transform and destroy the program.

We view as particularly alarming actions by both the Congress and HUD that restrict Section 202 facilities to lower-income residents and reduce both the cost and quality of these facilities. With such actions we are shutting out millions of potential residents once commonly referred to as the "near poor." We are telling those who can and want to pay their own way that they will not be permitted to do so. In Section 202, as elsewhere in government policy, we are putting persons of one income group into competition with those of a lower or a higher income group. One of the strengths of the Section 202 program has been its ability to minimize such differences and permit residents to find a common basis of understanding in shared problems of aging.

I fear we are attempting to transform the Section 202 program into a targeted version of the Section 8 program, ascribing to it the problems and political liabilities of that broader program. We are now trying to achieve too many objectives with this limited program. We cannot use it to meet the special needs of the elderly, house the poor and extend increasing assistance to the physically disabled and the chronically mentally ill. The program cannot meet all these demands without losing its essential character or compromising its standards of quality. Such actions threaten to undermine the broad basis of support for the program and set in motion the same process that brought an end to the Section 8 and public housing program.

AAHA and the Ad Hoc Coalition would like to urge this Subcommittee, and the Congress in general, to closely review these and other administrative changes in the Section 202 program to judge whether they are warranted on program or budgetary grounds or whether they constitute administrative efforts to curtail the program. We would urge action to hold the Section 202 interest rate at the current 9.25 percent. And we urge action on the Lundine-Heinz proposal (H.G. 2435/S. 1648) or other legislative initiatives that seek to address many of these problems through reforms in the current Section 202 program.

Mr. BONKER. I thank you, Ms. Young, for an excellent statement. We will begin with questioning as soon as the other witnesses are finished.

We will now proceed with the Dallas-based firm of Conroy & McIver. We have with us both Conroy and McIver. I would hope that since you both represent the same firm that you could shorten your testimony, if you can, and try not to duplicate what the other is saying. Who wants to proceed first?

Mr. CONROY. I think I will go first.

STATEMENT OF PAT CONROY

Mr. CONROY. Thank you, Mr. Chairman. I will try to keep my remarks as brief as possible. My name is Pat Conroy and I'm with Conroy & McIver, a consulting firm in Dallas, TX, that specializes in assisting nonprofit sponsors in working with the section 202 program.

I would like to direct my comments toward two specific areas. One is the effects of the section 8 fair market rents on the feasibility of the program, and also the impact of interest rates, and two, briefly outline in technical terms what the recently revised section 8 fair market rents have potentially done to the program.

As you probably know, in spite of the press release that goes out every year allocating x number of dollars for particular projects, HUD limits the amount of actual loan that's loaned to a sponsor by the lowest of three criteria: One being the actual cost of the project, another being a regulatory limit that's established by Congress, and then adjusted based upon high cost factors, and a third being the amount of mortgage that's supportable from the net income of the project. That last one is the one that we're finding is becoming more and more the criterion that is being utilized in limiting the amount of loan that a sponsor can receive.

The problem is that in many cases that criterion limits the mortgage to the point that the only choices a sponsor has to build the project, even the most basic project, is to either abandon it or come up with a significant amount of money from its own resources—and of course many, especially the smaller, nonprofit organizations, don't have those kinds of resources

To give you an example, in 74 percent of the market areas in region X, which is the Seattle region, the construction costs for a typical three-story structure that can be supported by the fair market rents in that region, are less than $30 per square foot, and that's an amount of money that is very difficult to build anything, even the most basic structures with. In region VI about 60 percent of the market areas are so affected and in other regions it's less.

Nationally, the range of construction costs, if you just used the fair market rents, ranges from approximately $12 a square foot in Pocatella, ID, to $71 or $72 a square foot in New York City. So, you can see while it may be possible to build something for $71 in New York City, it certainly is not possible to build any kind of adequate housing for $12 a square foot in Pocatella, ID.

Although these differences are dramatic, the real problem, I think, with using FMR's can be demonstrated by looking at more analogous situations. For example, if a sponsor applied for two identical 50-unit projects, in Lawton, OK, and McAllister, OK—and remember, Lawton and McAllister are only about 150 miles apart—HUD would allow $1,700,000 in Lawton but only $800,000 in McAllister.

Other examples, Poughkeepsie, NY, the sponsor would get almost $3 million for that same project. In Albany, only $1.6 million. And they are very close together. Closer to your area, Mr. Chairman, is in Seattle where HUD would allow $1.7 million to build that project, but in Bellingham only $1 million. I don't think

there is $700,000 difference in construction costs between Bellingham and Seattle, or in some of the other areas either.

Clearly, if HUD is going to utilize the section 8 fair market rents as limiting criteria in determining allowable mortgage under the section 202 program, then projects in at least 25 to 30 percent of the market areas in the United States will not be feasible without significant contributions by the sponsor or other outside sources.

But I think basic feasibility is only one part of it. I think it really gets to an issue of fairness. Is it right for HUD to allocate $2 million to build the same project in Jackson, MS, and only allocate $1 million in Birmingham? You're clearly going to get different housing in different parts of the country and I don't think that is something that ought to happen.

One other problem I'll talk about is the interest rate, and I know it's been mentioned. But as you know, by law, the interest rate is established based upon the average borrowing rate of the Treasury for the previous year. It's been frozen at 9¼ percent for the last 3 years even though it would have been higher if Congress hadn't frozen it. But I understand Congress is reluctant to continue to do that.

Mr. BONKER. At present, now, through 1984.

Mr. CONROY. Right, as I understand it.

Mr. BONKER. And if the freeze is not renewed, then it goes back to the average Treasury rate?

Mr. CONROY. Right. Which we estimate will be 10¼. We're not certain of that, but around 10¼ percent. If the interest rate is increased 1 percent, we have estimated it would add approximately $8,600 per living unit of total subsidy, including the 20-year section 8 contract. So, the value of that 1 percent to the sponsors is $8,600 per living unit, which if you applied it to the number of units that are being advertised right now, would amount to about $120 million in budget authority over the life of those particular projects.

Many of the problems I've outlined could be solved relatively easily with just minor technical modifications in program regulations. I think the solution to other problems would require major modifications. But these technical problems of the program could be handled, I think, fairly simply by HUD. I think I'll stop at that point.

[The prepared statement of Mr. Conroy follows:]

PREPARED STATEMENT OF PATRICK W. CONROY, CONROY & MCIVER, DALLAS, TX

Mr. Chairman, members of the committee, thank you for this opportunity to address the Committee on this issue that is so vital to senior citizens. My name is Pat Conroy. I am a partner in Conroy & McIver, a consulting firm in Dallas, Texas, specializing in the development of retirement housing and in assisting nonprofit sponsors in developing housing under HUD's Section 202 program.

As you know, adequate housing designed especially to serve the full range of needs of the elderly is in short supply. This shortage has been exacerbated by inflation and high interest rates which have made the development of unsubsidized housing for the elderly economically infeasible except for projects serving that small percentage of elderly households fortunate enough to be able to afford substantial monthly rents and fees. HUD's Section 202 program provides one of the only mechanisms for providing adequate housing to lower income senior citizens.

I would like to direct my comments toward two specific areas: the effects of Section 8 Fair Market Rents on the feasibility of Section 202 projects and the impact of interest rates on the costs of the Program.

The Section 8 Fair Market Rents have a profound effect on the feasibility of Section 202 projects. The amount of mortgage that is provided to a sponsor under the Section 202 program is limited by three factors: (1) a regulatory limit that is adjusted by high cost factors based on locations; (2) the actual certified cost of development; and (3) the amount of mortgage that can be supported by the net income from operations that is available for debt service. There are an increasing number of circumstancs under which the mortgage is limited by this third criterion. Even though the Congress has mandated that Section 202 loans cover 100% of the development costs, in those situations where the HUD-estimated cost of building a project is greater than the amount of mortgage that can be supported by the income from Section 8 Fair Market Rents, the sponsor must either pay the difference out of its own funds or abandon the project. Only those sponsors with significant resources can afford to fund such shortfalls and these funds must be diverted from the charitable purposes of the nonprofit sponsor. This is clearly contrary to the directives of Congress.

Under certain circumstances HUD can increase the Section 8 Fair Market Rents by up to 20% in order to improve the feasibility of a project. In our experience, however, most field offices will not request increases above the 10% that can be approved at the regional office level. In those situations where field office are willing to request increases, it can take up to six additional months to obtain approval.

The problem with relying upon Section 8 Fair Market Rents to determine feasibility, as one HUD staff person told me, is that fair market rents are neither fair nor market. The following information, which was taken from a Housing and Community Development Resource Center study of construction costs supportable by Fair Market Rents, illustrates the inadequacy and discriminatory nature of using Section 8 Fair Market Rents as limitations on Section 202 loans.

In 74% of the market areas in Region 10 (Seattle), the construction costs for a typical three story structure that can be supported by Section 8 Fair Market Rents (including the 10% regional office increase) are less than $30.00 per square foot. In Region 6 (Fort Worth), almost 60% of the market areas are limited to construction costs of less than $30.00 per square foot. In Regions 1 (Boston), 2 (New York), and 3 (Philadelphia), only one market area is limited to $30.00 per square foot. Nationally, the range of construction costs limited by Section 8 Fair Market Rents is from $12.11 per square foot in Pocatello, Idaho, to $71.74 in New York City (and $94.65 in the coastal area of Alaska).

Although these differences are dramatic, the real problem with using FMRs in limiting costs is better illustrated by looking at more analogous situations. For example, if a sponsor proposed two fifty unit Section 202 projects, one in Lawton, Oklahoma, and an identical one in McAlester, Oklahoma, HUD would allocate $1,735,000 to build the one in Lawton and only $803,000 to build the project in McAlester. Lawton and McAlester are only about 150 miles apart. Similarly, HUD would allow $2,972,000 in Poughkeepsie, New York, and only $1,609,000 in Albany and $2,225,000 in Jackson, Mississippi, but only $1,400,000 in Birmingham. In Texas, the range would be from $2,116,000 in Victoria to $1,118,000 in Sherman.

Clearly, if HUD is going to utilize Section 8 Fair Market Rents as a limiting criterion in determining allowable mortgages in the Section 202 program, then projects in 25 to 30 percent of the market areas in the United States will not be feasible without funds from either the sponsor or outside sources. In some market areas, HUD can solve this problem by allowing projects to be processed utilizing rents up to 20% above Fair Market Rents. In other areas, the problem can only be solved by increasing the Fair Market Rents.

Basic feasibility is only one aspect of the problem. By utilizing FMRs as a limiting factor in determining the amount of the direct loan for a particular project, HUD is effectively discriminating against sponsors and elderly and handicapped persons in those market areas with low FMRs. The overall quality of the housing including amenities, safety and security measures, building materials, and even operating budgets, is directly related to the level of the Fair Market Rents. Projects that are developed in areas with high FMRs relative to costs are effectively exempt from many of HUD's cost containment measures because they can be processed with rents that are within the published Fair Market Rents. Conversely, projects developed in market areas with low FMRs are subject to extensive cost containment review because even the most basic structure requires processing with rents in excess of 110% of the published Fair Market Rents.

Another problem significant to the feasibility of Section 202 projects and one which impacts greatly on the amount of Section 8 Budget Authority necessary to assist Section 202 projects is the interest rate applicable to Section 202 Borrowers. As you know, by law, the Section 202 interest rates are tied to the Treasury borrow-

ing rate for comparable long-term loans. In the early years of the "new" Section 202 Program, interest rates were determined each October based on the Treasury comparable for the previous 12 months. However, as interest rates began to skyrocket, Congress opted to freeze the borrowing rate for Section 202 Borrowers, and for the past three years, this rate has been rolled back to 9.25%. I understand, however, that the Congress is reluctant to continue to freeze this rate.

I have included for the record an example which demonstrates not only how increased interest rates affect the amount of Section 202 loan authority needed to develop the Section 202 project, but more important, how the interest rate impacts the Section 8 contract authority needed to support the project for 20 years. We estimate that a total increase in Section 202 loan authority and Section 8 contract authority (assuming a 20 year contract) of approximately $8,600 per average living unit would be required in order to support a one percent increase in the interest rate. Approximately $120,000,000 more in budget authority would be required to support the 14,000 units available for funding this year if the interest rate was raised to the appropriate rate of 10.25%.

Many of the problems I have outlined could be solved relatively easily with minor technical modifications in the program regulations. The solutions to other problems would require major modifications. If all of the problems were eliminated, the program would function more efficiently, costs would be lowered, housing for the elderly and handicapped would be built more expeditiously, and the quality of housing would be distributed more uniformly.

COMPARISON OF THE EFFECTS OF INTEREST RATE CHANGES ON SECTION 202 DEVELOPMENT COSTS AND SECTION 8 CONTRACT AUTHORITY

Development costs [1] (interest rate in percent)	7.625	9.25	11.75
Construction costs	$3,010,000	$3,010,000	$3,010,000
Architecture	135,000	135,000	135,000
Construction interest	170,893	209,466	270,397
Project contingency	115,263	116,460	118,350
Taxes and insurance	47,500	47,600	47,800
Legal and consulting	47,500	47,500	47,500
Organization and management	16,000	16,000	16,000
Land	300,000	300,000	300,000
Total development costs	3,842,155	3,882,026	3,945,047
Mortgage amount per unit	38,422	32,820	39,450
Rents required to amortize mortgage:			
0 BR	354	404	485
1 BR	401	458	550
Annual section 8 contract authority	467,100	533,400	640,500
Section 8 budget authority (20 year)	9,342,000	10,668,000	12,810,000
Total budget authority	13,184,156	14,550,026	16,755,047
Total budget authority per unit	131,842	145,500	167,550

[1] Example is based on typical 100 unit project (75 one bedroom units and 25 efficiencies).

Mr. BONKER. Ms. McIver, do you want to pick up where your partner left off?

STATEMENT OF DIANA McIVER

Ms. MCIVER. Thank you.

As indicated, I am Diana McIver. I'm a housing consultant, specializing in the section 202 program, and I am here to discuss cost containment issues, including processing time, and also the cancellation policy since we view that in a sense, as a cost containment policy.

During the past 3 years, HUD has embarked upon a policy of cost containment in the section 202 program. I support containment of costs in the 202 program, because I feel it's going to allow us to take limited 202 funds and stretch them to serve more elderly persons.

Mr. BONKER. As it relates to housing, when we make reference to cost containment, that seems to be a fairly general term. Could you identify for me, very briefly, what you mean by cost containment?

Ms. MCIVER. Cost containment is the reduction of costs in the 202 program. Now, if you cancel a project and recapture those funds, in a sense that would be cost containment. However, we in the field, typically, are talking about cost containment when we refer to several HUD policies that were implemented during the past couple of years, including policies that establish maximum unit sizes, for example, 415 square feet for an efficiency unit and 540 square feet for a one-bedroom unit.

Mr. BONKER. And eliminate swimming pools and jacuzzis.

Ms. MCIVER. Eliminating swimming pools, jacuzzis, bowling alleys. And more specifically, the basic housing design concept, including limiting common community areas to 5 percent of the total. There are several sets of regulations that are in effect called cost containment policies.

Mr. BONKER. Some I assume you can go along with and some you can't go along with.

Ms. MCIVER. That's right.

Mr. BONKER. OK.

Ms. MCIVER. And some of them we just want to make more flexible.

Before we get into specifics of cost containment, one of the things I'd like to talk about is HUD's cancellation policy. What's happened most recently is that the cancellation policy that HUD talked about earlier this morning had a couple of things left out when it was issued in July 1983. One, HUD eliminated the section that addressed specific extension policies for HUD-caused delays. Moreover, HUD notices also provide that in taking into consideration which projects to recommend for extension, the area offices should consider staff time available to process the projects. So that brings us to the problem of processing time in the 202 program, and we have provided the committee with a study that's been done on processing time. Incidentally, we didn't make up this data; we didn't write sponsors and solicit this data. This data comes from HUD MIDLIS reports and it tracks all projects in processing.

Mr. BONKER. Are you talking about nationally or just within your region?

Ms. MCIVER. Nationally.

And when you analyze this data, the data shows that the median processing time for all 50 HUD offices on section 202 applications is 23 months. Now, when you cancel projects that take longer than 18 months, it does not seem fair to then have a medium HUD processing time of 23 months.

Mr. BONKER. You're saying that the average processing time is 23 months?

Ms. MCIVER. That's right.

Mr. BONKER. And the administration has a policy that calls for the initial cancellation after 18 months and then it can be extended?

Ms. MCIVER. Right.

Mr. BONKER. So even if it's extended 6 months it falls within a month of the average processing time.

Ms. MCIVER. Right. And there are some offices that have never processed a project in less than 24 months time. One office has a median processing time of 32 months for processing 202 applications.

Mr. BONKER. Could you tell the committee if the processing time has been shortened or lengthened under the Reagan administration?

Ms. MCIVER. It's about the same. That's, I guess, the irony of this matter, that processing time doesn't have politics attached to it. The processing on 202's has been difficult ever since the program was decentralized, back in 1977. The area offices were given a new program, not a lot of instruction on how to do it, and processing immediately became bogged down.

Mr. BONKER. Well then, if what you're saying is true and the average processing is 23 months, it means that the administration is really forced to automatically extend.

Ms. MCIVER. That's right.

Mr. BONKER. Or be fairly ruthless in its cancellation.

Ms. MCIVER. That's right.

Mr. BONKER. Now, he just told us that they have canceled only 900 units as a result of this cancellation.

Ms. MCIVER. Right.

Mr. BONKER. So that must mean there's almost an automatic extension, even beyond the 24 months.

Ms. MCIVER. It's not that automatic these days. More and more they're tightening up on the cancellation policy.

We believe that projects should close in 12 months, because the top 13 offices in the country can close those projects in 12 months.

Mr. BONKER. Well, not if you're laying off people left and right.

Ms. MCIVER. Well, yes. You know, that could have an impact on processing also.

Mr. BONKER. Laying off people left anyway.

Ms. MCIVER. But the goal that we have and the way the program works best, is to try and close those projects in the first 12 months when they're still workable. So rather than to achieve a liberal application of cancellation and extension policies, what we want to accomplish is faster HUD processing.

HUD is correct that there are some sponsor-caused delays. But we work personally in 25 of the 50 area offices, and we've had situations where nearly identical projects with the same sponsor, the same architect, the same contractor, same consultant, and virtually the same design, have taken 12 months to process in one HUD office and 24 months in another office. So, there is a variance.

Mr. BONKER. Ms. McIver, may I interrupt? We don't allow extensions on votes, and I have about 4 minutes to get over to the floor and cast my vote.

Ms. MCIVER. OK.

Mr. BONKER. The subcommittee will go into recess for approximately 10 minutes. We'll pick up at about 11:25.

Ms. MCIVER. OK.

[Brief recess.]

Mr. BONKER. The subcommittee will reconvene. We were in the process of hearing from Ms. McIver on cancellations, before the hearing was recessed for the purpose of voting. You may proceed, Ms. McIver.

Ms. MCIVER. The only point that I'd like to say, to wrap up on the cancellation issue, is that HUD needs to be flexible with their cancellation policy. But more important, we would like to assist HUD in developing a policy that's fair, and that expedites processing.

There are sponsor delays. There are also HUD-caused delays. And each party should be held responsible for those delays. We'll do our part in working with the ad hoc coalition and the sponsors and the constituency groups in reducing sponsor delays, if we can get a commitment from HUD to do their part in correcting HUD delays.

Mr. BONKER. OK.

Ms. MCIVER. Now, as far as processing times, there are costs associated with processing times.

Assuming a 6-percent inflation rate, which is a very conservative assumption, a delay of 1 month in starting construction for each of the 321 projects funded in fiscal 1983 would add approximately $2.7 million to the total cost of developing that housing.

Mr. BONKER. Now, you're talking about a delay of 1 month?

Ms. MCIVER. A delay of 1 month.

Mr. BONKER. And your figure is a national average?

Ms. MCIVER. Based on the national allocation for fiscal 1983, the projects that were approved this past September.

Mr. BONKER. So, you're talking about a number of projects that were delayed?

Ms. MCIVER. Right.

And if we could reduce processing time from the median, 23 months, to 10 months, we could effect a savings of $35 million in section 202 loan authority on those projects, and an additional savings in section 8 contract authority of $72 million. So, it's a very serious cost problem, the processing time delay is.

Mr. BONKER. I wonder why the administration didn't include processing in its cost containment program.

Ms. MCIVER. I would like to recommend that they do. That would be my favorite cost containment policy.

There also are some other things that we've identified that I don't want to go into in great detail that would also save costs. One is reverting back to the pre-1977 application procedure, which doesn't require sites on the part of sponsors. Right now there is only about one in six section 202 applications selected for funding, and yet HUD has to go out and review all six sites and review architectural drawings on all six projects. I think we could effect some savings that way.

Also, HUD has a requirement that you form a borrower corporation in order to own a 202 and that is a good requirement. But if that requirement were imposed at the time a fund reservation is

approved, then we would not have these thousands of borrower corporations being formed each year unnecessarily, and that would be a savings, especially to the IRS which has to process each of the 501(c)(3) tax exemption requests for these corporations.

Also, we would like to see some type of fast track processing whereby if a sponsor agrees to some kind of minimum dollar amount for their overall cost, then they would be exempt from cost processing.

Another idea that may not save money, but would certainly give sponsors more flexibility would be to eliminate HUD's size limits on efficiencies, one bedroom, and common areas, and give sponsors a maximum square footage within which they can design and let them do with that what they may. In this way, you wouldn't increase costs in the program because your total square footage is going to be the same, but you would allow sponsors to either have smaller units, more common space and serve the frail elderly, or to have larger units, less common space, and serve the well elderly.

Also, it would give sponsors the flexibility of not having to build efficiency units. So instead of building 25 percent of the units as 415 square feet efficiencies and 75 percent of the units as 540 square feet one bedrooms, a sponsor could have a project of all one bedrooms at, for instance, 500 square feet each. This type of policy would give more flexibility to the sponsors because, after all, they're the ones who have the 40-year obligation for repayment of the loan.

Additionally, there are several places in the underwriting procedure where, if HUD would pursue a much more aggressive underwriting posture, we could accomplish cost savings. Those would be in the areas of project contingency, construction interest, and what's called a net income reserve. But these kind of changes could be made exclusively through changes in underwriting procedures.

As you have probably noticed, we're not here to complain or share war stories or to request more funds. What we are here for is to provide some positive suggestions for improvements in the program, changes which we think will benefit the elderly and, at the same time, contain costs in the 202 program. These aren't our own personal ideas. They're the result of meetings with congressional staff, sponsors, architects, contractors, and they are also the result of some discussions with HUD staff.

In fact, the fast track processing idea that we were discussing emerged from a concept initially advanced by Undersecretary Abrams at a meeting convened by the Federal Council on Aging.

We've advanced several suggestions today on topics ranging from fair market rents to processing times. Jim Womack is going to go into some more suggestions on management. But to begin a dialog on these proposed changes for the section 202 program, most of which can be accomplished through administrative action or by regulation, we would like to request your assistance in establishing a section 202 task force. We would like this task force to include representatives from the appropriate congressional committees, including the Select Committee on Aging, and the House Banking, Finance, and Urban Affairs Committee, along with representatives of HUD, the Ad Hoc Coalition on Housing for the Elderly, constituent groups, sponsors, and section 202 professionals.

The charge of this task force would be to develop and implement changes in the section 202 program which result in greater program efficiency, cost savings, reduced regulations, and design flexibility, while at the same time giving full consideration to the development of quality living environments for our Nation's elderly.

The section 202 program is not a partisan program. Both Republicans and Democrats alike have strongly supported this program since its inception in 1959, and have repeatedly renewed its authorization and appropriated its funding.

As a constituent group for this program, we are prepared to work with the Congress and HUD as a team to provide for greater efficiency in the 202 program to help our limited funds produce more housing while at the same time not jeopardizing the quality of this housing. Your support and assistance in the establishment of a section 202 task force would give us the vehicle to make these improvements.

Thank you.

[The prepared statement of Ms. McIver follows:]

PREPARED STATEMENT OF DIANA McIVER, CONROY & McIVER, DALLAS, TX

Mr. Chairman, members of the committee, I appreciate the opportunity to appear here today to discuss the Section 202 program. My name is Diana McIver, and I am a partner in Conroy & McIver, a consulting firm which has provided consulting services on more than forty Section 202 developments across the country.

I have been involved with the Section 202 Program for nine years, initially as a staff member of the Senate Special Committee on Aging and most recently as a consultant in the program. This range of experience has allowed me to view the program from the various perspectives of the Congress, HUD, the sponsor, and the development team. While I take great pride in what has been accomplished since the revitalization of this program in 1974, as I know you do, I believe the Section 202 program can become a more cost-effective, more efficient and more flexible provider of housing for the elderly.

During the past three years. HUD has embarked upon a policy of cost containment in the Section 202 program. I support containment of costs in the Section 202 program because I believe it will allow us to expand the limited funds to meet the tremendous demand of this specialized housing for the elderly. It is possible, however, to cut costs in the program without jeopardizing the quality of building construction, reducing the management efficiency of the building, or eliminating common spaces for social get-togethers.

Many of the cost containment measures implemented by HUD have been well thought out and have had little negative effect on the program. Unfortunately, others have been conceived in a vacuum and have had a significant detrimental effect on the program.

One example of a policy that is ill-conceived is HUD's cancellation policy. This policy calls for cancellation of any Section 202 project that has not started construction within eighteen months after the funds are awarded. Under certain circumstances, a six month extension can be granted. In theory, this policy seems reasonable and justified. In fact, I know of no one active in the Section 202 program who doesn't support the concept of starting construction as soon as possible after award of the funds. The problem with this policy is that in most cases it is HUD that causes the delay rather than the sponsor or the development team. In a study of HUD processing time for Section 202 projects, the Housing and Community Development Resource Center found that the national median time for processing Section 202 projects from fund reservation to construction start is 23 months. This study analyzed 830 projects processed in all fifty HUD field offices. The projects analyzed included 529 projects for the elderly and 301 projects for non-elderly handicapped persons. The study only looked at projects in which construction had actually started but final loan closing had not taken place. In this way, the study is skewed toward projects that have been processed most recently and tend to reflect the current situation.

HUD has, however, in the implementation of the most recent cancellation policy, intimated that all processing delays are sponsor-caused delays. Although earlier

cancellation policies allowed extensions for HUD-admitted delays in processing, the most recent policy does not. However, the processing time study shows that the top thirteen HUD field offices process within twelve months while the bottom twenty field offices take from twenty-four to thirty-two months to process. Unless there is a significant difference between sponsors who apply in the top rated field offices and those who apply in the bottom rated field offices, the reasons for longer processing times clearly stem from differences in HUD field offices. (Coincidentally, the top field office and the bottom field office are both in Michigan. The Grand Rapids office processes in 11.5 months and Detroit processes in a median time of 32 months.)

Processing delays are not something new to the 202 program. They were not invented by the current Administration, and in fact became a significant problem when the processing of 202 projects was "decentralized" in 1977. However, HUD has the power to correct these problems and I hope that our discussions of this problem today will result in actions on HUD's part. As a member of the Ad Hoc Coalition on Housing for the Elderly and as a Section 202 consultant, I assure you I will take whatever steps necessary to ensure that sponsors, consultants and other development team members be held responsible for sponsor-caused delays provided we can get assurance from HUD that they will correct HUD-caused delays.

Translating shorter processing times into cost savings is difficult. However, assuming 6% inflation, a delay of one month in starting construction for each of the 321 projects funded in fiscal 83 would add approximately $2.7 million to the total costs of developing the housing. If HUD could reduce median processing time from 23 months to 10 months for the 1983 funded projects, $35 million in Section 202 loan authority could be saved. In addition, the budget authority necessary to fund the twenty year Section 8 contract required to support the increased costs would amount to more than $72 million.

Shorter processing time is not the only area in which we could effect a savings. Other areas that we have identified as having potential for cutting costs in the program include:

Changing the application and processing procedures to eliminate the necessity for identifying a site at the application stage for projects for the elderly. Currently, applications for projects for non-elderly handicapped need not contain information about site or design. Sponsor costs for land options and preliminary architectural design would be eliminated. HUD administrative costs would be reduced by eliminating the necessity of architectural review and site visits at the application stage.

Removing the requirement for formation of a borrower corporation and for applying for tax exemption at the application stage. Sponsor costs for forming borrower corporations and applying for tax exemption would be eliminated. HUD and IRS administrative costs would be reduced by eliminating reviews.

Establishing a "fast-track" processing system whereby sponsors who elected to keep their development costs at a specified minimum (i.e., 85% of the Section 202 cost limits or a similar agreed upon measure) would have reduced processing requirements, including the elimination of cost processing.

Changing HUD's maximum square footage limitation from an individual unit basis to a project basis. Currently HUD limits the size of one bedroom units to 540 square feet and efficiency units to 415 square feet. Further, HUD requires that 25% of the units in a project be efficiency units and limits community space to 5% of the total project gross square footage. HUD can accomplish the same result by establishing a limitation on total square footage in a project and allowing the sponsor maximum flexibility in determining how that square footage is allocated among unit types and community space. This will give sponsors the option of serving the frail elderly by designing smaller living units with more congregate service space or serving the well elderly by designing larger units with less community space.

Additionally, we could reduce costs in the 202 program (consequently reducing Section 8 authority) through more aggressive underwriting on the part of HUD. This would include:

Reducing the project contingency amount from 3% to 1% of mortgage and establishing a regional office contingency.

Eliminating the two extra months of construction interest charges that are built into the underwriting process.

Reducing or eliminating the requirement for a 5% net income reserve in determining the amount of funds available to support the mortgage.

These and other points are described in more detail in a number of specific proposals that have been provided for the record. I would be happy to answer any questions regarding these proposals at the conclusion of my remarks.

As you have no doubt noticed, we are not here to complain or to share "war stories" or to request more funds—although if the Congress sees fit to increase the appropriations for the Section 202 Program, you will have our support. Instead, we have come forth with some positive suggestions for improvements in the program which will ultimately benefit the elderly and handicapped consumers while at the same time encouraging cost-effectiveness in the 202 program. These are not the ideas of a few professionals in the Section 202 program; they are the results of meetings with sponsors, 202 professionals, congressional staff, and HUD staff. In fact, the "fast track" processing idea emerged from a concept initially advanced by Under Secretary Abrams at a meeting convened by the Federal Council on Aging.

On behalf of the witnesses on the panel, I would like to recap our suggestions for solutions to the problems at hand. They are as follows: Provide more flexibility and fairness in the Fair Market Rent system; Freeze the interest rate at 9.25% or lower; Expedite processing time on 202 applications; Eliminate site requirement at application stage; Eliminate requirement of borrower corporation at application stage; Establish a simplified processing system for sponsors willing to hold costs down; Provide more flexibility in cost containment through the imposition to total maximum square footage rather than individual unit maximums; Reduce construction interest period; Reduce project contingency from 3% to 1%; Eliminate net income reserve; Develop consistent change order policies for all projects whether competitively bid or otherwise; Eliminate cost processing for projects competitively bid; Develop 202 operating handbook; Allow at least 40% occupancy by persons in 50–80% median income range; and Consider HUD-caused delays in determining which 202 projects should be cancelled.

To begin a discussion of these proposed changes to the Section 202 program, most of which can be accomplished through administrative action or by regulation, we respectfully request your assistance in establishing a Section 202 Task Force. We would like this Task Force to include representatives from the appropriate Congressional Committees including the Select Committee on Aging and the House Banking, Finance and Urban Affairs, along with representatives of HUD, the Ad Hoc Coalition on Housing for the Elderly, Constituent Groups, Section 202 Sponsors, and Section 202 Professionals including Consultants, Architects, Attorneys and Contractors.

The charge of this Task Force would be to develop and implement changes in the Section 202 program which result in greater program efficiency, cost savings, reduced regulations, and design flexibility, while at the same time giving full consideration to the development of quality living environments for our nation's elderly.

The Section 202 Program is not a partisan program. Both Republicans and Democrats alike have strongly supported this program since its inception in 1959 and have repeatedly renewed its authorization and appropriated its funding. As the constituent group for this program, we are prepared to work with the Congress and HUD as a team to provide for greater efficiency in the 202 program to help our limited funds produce more housing while at the same time not jeopardizing the quality of this housing. Your support and assistance in the establishment of a Section 202 Task Force would give us the vehicle to make these improvements.

HUD FIELD OFFICE RANKING PROCESSING TIME FROM FUND RESERVATION TO INITIAL CLOSING SECTION 202 PROJECTS INITIALLY ENDORSED, NOT FINALLY ENDORSED AS OF OCTOBER 31, 1983

Rank	Region	Field office	Project type	Number of projects	Processing time		Variance from national median
					Mean	Median	
1	5	Grand Rapids	Elderly	11	15.64	11.00	9.00
			Nonelderly	1	(1)	(1)	(1)
			Total	12	15.33	11.50	11.50
2	9	Sacramento	Elderly	1	(1)	(1)	(1)
			Nonelderly	3	12.33	12.00	18.00
			Total	4	12.00	12.00	11.00
3	5	Minneapolis	Elderly	18	11.83	12.00	8.00
			Nonelderly	5	14.60	12.00	18.00
			Total	23	12.43	12.00	11.00

HUD FIELD OFFICE RANKING PROCESSING TIME FROM FUND RESERVATION TO INITIAL CLOSING SECTION 202 PROJECTS INITIALLY ENDORSED, NOT FINALLY ENDORSED AS OF OCTOBER 31, 1983—Continued

Rank	Region	Field office	Project type	Number of projects	Processing time		Variance from national median
					Mean	Median	
4	3	Pittsburgh	Elderly	12	12.17	11.50	8.5
			Nonelderly	2	(1)	(1)	(1)
			Total	14	12.71	12.00	11.00
5	7	Omaha	Elderly	3	12.33	12.00	8.00
			Nonelderly	2	(1)	(1)	(1)
			Total	5	13.20	12.00	11.00
6	5	Columbus	Elderly	4	11.25	12.00	8.00
			Nonelderly	2	(1)	(1)	(1)
			Total	6	13.30	12.00	11.00
7	5	Indianapolis	Elderly	10	14.00	12.00	8.00
			Nonelderly	0	(1)	(1)	(1)
			Total	10	14.00	12.00	11.00
8	4	Nashville	Elderly	5	14.00	12.00	8.00
			Nonelderly	0	(1)	(1)	(1)
			Total	5	14.40	12.00	11.00
9	7	Kansas City	Elderly	7	14.43	12.00	8.00
			Nonelderly	12	14.92	12.00	18.00
			Total	19	14.74	12.00	11.00
10	4	Knoxville	Elderly	8	15.87	12.00	8.00
			Nonelderly	2	(1)	(1)	(1)
			Total	10	15.90	12.00	11.00
11	7	St. Louis	Elderly	12	15.50	12.00	8.00
			Nonelderly	1	(1)	(1)	(1)
			Total	13	16.38	12.00	11.00
12	8	Denver	Elderly	9	13.33	12.00	8.00
			Nonelderly	8	20.62	22.50	7.50
			Total	17	16.67	12.00	11.00
13	6	New Orleans	Elderly	12	16.75	12.00	8.00
			Nonelderly	2	(1)	(1)	(1)
			Total	14	21.21	12.00	11.00
14	4	Birmingham	Elderly	9	18.00	12.00	8.00
			Nonelderly	1	(1)	(1)	(1)
			Total	10	19.00	12.50	10.50
15	1	Providence	Elderly	3	12.00	12.00	8.00
			Nonelderly	2	(1)	(1)	(1)
			Total	5	21.40	13.00	10.00
16	6	San Antonio	Elderly	4	14.00	14.00	6.00
			Nonelderly	0	(1)	(1)	(1)
			Total	4	14.00	14.00	9.00
17	7	Des Moines	Elderly	7	15.71	19.00	1.00
			Nonelderly	8	18.37	14.00	16.00
			Total	15	17.13	14.00	9.00
18	3	Washington	Elderly	4	26.25	27.00	−7.00
			Nonelderly	13	18.77	14.00	16.00
			Total	17	20.53	14.00	9.00

HUD FIELD OFFICE RANKING PROCESSING TIME FROM FUND RESERVATION TO INITIAL CLOSING SECTION 202 PROJECTS INITIALLY ENDORSED, NOT FINALLY ENDORSED AS OF OCTOBER 31, 1983—Continued

Rank	Region	Field office	Project type	Number of projects	Processing time		Variance from national median
					Mean	Median	
19	4	Columbia	Elderly	3	16.33	18.00	2.00
			Nonelderly	1	(1)	(1)	(1)
			Total	4	16.75	18.00	5.00
20	10	Portland	Elderly	8	17.00	16.00	4.00
			Nonelderly	3	18.67	22.00	8.00
			Total	11	17–45	20.00	3.00
21	10	Seattle	Elderly	8	15.75	12.00	8.00
			Nonelderly	5	21.40	23.00	7.00
			Total	13	17.92	20.00	3.00
22	4	Jacksonville	Elderly	25	19.04	17.00	3.00
			Nonelderly	6	29.97	30.00	0.00
			Total	31	21.10	20.00	3.00
23	6	Little Rock	Elderly	6	13.83	12.00	8.00
			Nonelderly	5	25.00	23.00	7.00
			Total	11	18.90	21.00	2.00
24	6	Oklahoma City	Elderly	4	19.00	20.50	−.50
			Nonelderly	1	(1)	(1)	(1)
			Total	5	19.60	21.00	2.00
25	1	Hartford	Elderly	16	23.19	20.00	0.00
			Nonelderly	15	21.40	21.00	9.00
			Total	31	22.32	21.00	2.00
26	5	Cincinnati	Elderly	4	18.00	18.50	1.50
			Nonelderly	6	19.33	21.50	8.50
			Total	10	18.80	21.50	1.50
27	3	Richmond	Elderly	6	15.50	12.00	8.00
			Nonelderly	3	27.33	24.00	6.00
			Total	9	19.44	22.00	1.00
28	2	San Juan	Elderly	21	20.14	21.00	−1.00
			Nonelderly	1	(1)	(1)	(1)
			Total	22	20.32	22.00	1.00
29	5	Cleveland	Elderly	17	22.12	21.00	−1.00
			Nonelderly	2	(1)	(1)	(1)
			Total	19	24.05	22.00	1.00
30	3	Philadelphia	Elderly	22	20.59	23.00	−3.00
			Nonelderly	6	34.33	31.50	−1.50
			Total	28	23.54	23.50	−.50
31	4	Atlanta	Elderly	7	20.14	24.00	−4.00
			Nonelderly	4	26.25	23.50	6.50
			Total	11	22.36	24.00	−1.00
32	3	Baltimore	Elderly	3	16.67	14.00	6.00
			Nonelderly	6	25.67	26.00	4.00
			Total	9	22.67	24.00	−1.00
33	4	Greensboro	Elderly	11	22.73	23.00	−3.00
			Nonelderly	22	24.32	24.00	6.00
			Total	33	23.79	24.00	−1.00

HUD FIELD OFFICE RANKING PROCESSING TIME FROM FUND RESERVATION TO INITIAL CLOSING SECTION 202 PROJECTS INITIALLY ENDORSED, NOT FINALLY ENDORSED AS OF OCTOBER 31, 1983—Continued

Rank	Region	Field office	Project type	Number of projects	Processing time		Variance from national median
					Mean	Median	
34	1	Boston	Elderly	23	23.04	24.00	−4.00
			Nonelderly	21	24.67	24.00	6.00
			Total	44	23.82	24.00	−1.00
35	5	Chicago	Elderly	14	20.79	22.50	−2.50
			Nonelderly	14	27.87	26.00	4.00
			Total	28	24.32	24.00	−1.00
36	4	Louisville	Elderly	13	24.92	24.00	−4.00
			Nonelderly	0	(1)	(1)	(1)
			Total	13	24.92	24.00	−1.00
37	5	Milwaukee	Elderly	9	18.89	14.00	6.00
			Nonelderly	16	28.37	27.50	2.50
			Total	25	24.96	24.00	−1.00
38	9	Honolulu	Elderly	0	(1)	(1)	(1)
			Nonelderly	9	27.22	24.00	6.00
			Total	9	27.22	24.00	−1.00
39	9	Phoenix	Elderly	8	26.87	20.50	−.50
			Nonelderly	3	29.00	31.00	−1.00
			Total	11	27.45	24.00	−1.00
40	3	Charleston	Elderly	7	28.29	24.00	−4.00
			Nonelderly	0	(1)	(1)	(1)
			Total	7	28.29	24.00	−1.00
41	9	San Francisco	Elderly	14	21.71	20.50	−.50
			Nonelderly	4	28.25	33.00	−3.00
			Total	18	23.17	24.50	−1.50
42	9	Los Angeles	Elderly	24	25.67	24.00	−4.00
			Nonelderly	8	32.25	32.00	−2.00
			Total	32	27.31	25.00	−2.00
43	2	Newark	Elderly	15	24.40	24.00	−4.00
			Nonelderly	8	33.87	35.50	−5.50
			Total	23	27.70	25.00	−2.00
44	1	Manchester	Elderly	18	28–61	27.00	−7.00
			Nonelderly	28	30.14	27.00	3.00
			Total	46	29.54	27.00	−4.00
45	2	New York	Elderly	43	26.98	24.00	−4.00
			Nonelderly	23	37.83	38.00	−8.00
			Total	66	30.76	27.00	−4.00
46	4	Jackson	Elderly	6	32.83	27.00	−7.00
			Nonelderly	2	(1)	(1)	(1)
			Total	8	31.37	27.00	−4.00
47	2	Buffalo	Elderly	11	19.91	21.00	−1.00
			Nonelderly	10	46.30	43.00	−13.00
			Total	21	32.48	29.00	−6.00
48	6	Houston	Elderly	2	(1)	(1)	(1)
			Nonelderly	2	(1)	(1)	(1)
			Total	4	29.25	30.00	−7.00

HUD FIELD OFFICE RANKING PROCESSING TIME FROM FUND RESERVATION TO INITIAL CLOSING SECTION 202 PROJECTS INITIALLY ENDORSED, NOT FINALLY ENDORSED AS OF OCTOBER 31, 1983—Continued

Rank	Region	Field office	Project type	Number of projects	Processing time		Variance from National median
					Mean	Median	
49	6	Dallas	Elderly	9	29.11	25.00	−5.00
			Nonelderly	3	42.33	41.00	−11.00
			Total	12	32.42	30.50	−7.50
50	5	Detroit	Elderly	13	33.85	32.00	−12.00
			Nonelderly	0	(1)	(1)	(1)
			Total	13	33.85	32.00	−9.00
		National	Elderly	529	20.83	20.00	
			Nonelderly	301	26.99	30.00	
			Total	830	23.07	23.00	

[1] Mean and median for fewer than 3 projects in any category not shown.

Note: Rank was determined by analyzing the number of months required for processing each project from fund reservation to initial closing. Projects were divided into elderly and nonelderly handicapped. Only those projects that have initially closed but have not yet been finally closed were included in the analysis.

The mean and median for each HUD field office were determined for elderly projects, nonelderly handicapped projects, and all projects. The offices were ranked based upon the medians for all projects, with the mean for all projects as a secondary determiner of rank order.

The median for elderly projects ranged from a low of 11 months in the Grand Rapids office to a high of 32 months in Detroit. The low mean for elderly projects ranged from 11.25 in the Columbus office to 33.85 months in Detroit. The national median and mean were 20 and 20.83 months respectively.

For nonelderly handicapped projects, the median range was from 12 months in Sacramento, Minneapolis, and Kansas City to 43 months in Buffalo. The mean ranged from 12.33 months in Sacramento to 46.3 months in Buffalo. The national median and mean were 30 and 26.99 months respectively.

The median processing time for all projects ranged from a low of 11.5 months in Grand Rapids to a high of 32 months in Detroit. The mean ranged from 12 months in Sacramento to 33.85 months in Detroit.

Nationally, 529 elderly projects and 301 nonelderly handicapped projects were analyzed. The national median and mean for all projects were 23.07 months and 23 months respectively with elderly projects averaging 20.83 months to process (20 month median) and nonelderly handicapped projects averaging 26.99 months with a 30-month median processing time.

REDUCE PROCESSING TIME

Background.—Median processing time for Section 202 projects ranges from 11.5 months for those projects processed by the Grand Rapids HUD Office to 32 months for those processed in Detroit. The median processing time for all Section 202 projects, nationwide, is 23 months. (Twenty months for elderly projects and 30 months for non-elderly handicapped projects.)

Implementation.—1. Establish firm time guidelines for sponsor and HUD.

a. Require post fund reservation meeting between sponsor's development team and director for housing development, multifamily housing representative, design representative, cost processor, valuation processor, mortgage credit examiner, and housing management representative. Establish specific timetable for sponsor and HUD within the following general guidelines:

	Days—	
	Target	Maximum
Submit conditional application	30	60
Issue conditional commitment	45	60
Submit firm application	75	120
Issue firm commitment	30	60
Initial loan closing	20	30

b. Assign monitoring responsibility to multifamily housing rep once schedule is agreed upon by sponsor and HUD. Notify each member of the development team and each HUD processor of schedule.

2. Require written explanation for any HUD-caused delay.

a. Establish formal responsibility for any delays. If delays are caused by sponsor, time counts against project. If delays are caused by HUD, time is not counted against project. Director of Housing should be held responsible for all HUD delays.

b. Rate each office by how well schedules are met and by length of processing time from fund reservation to initial closing.

3. Provide training and guidelines for HUD technical processors to eliminate unnecessary delays due to "nit-picking".

a. Review all requests for additional information to ensure that information is really necessary for processing.

b. Establish Central or Regional Office "trouble-shooters" for technical processors to call, to answer questions, and to assist in determining if information is really necessary.

Benefits.—For the average project, each month of delay increases total cost by $15,000 (assuming 6% inflation rate). For all HUD projects, each month of delay costs approximately $2,900,000. If median processing time can be reduced from the current 23 months to 12 months, total savings per year would be almost $35,000,000 in Section 202 loan funds. Annual savings in Section 8 contract authority would be approximately $3,627,000 or $72,540,000 over the twenty year contract period. Additional savings could also be achieved by the sponsor and the development team as well as in HUD administrative costs.

IMPACT OF DELAYED PROCESSING ON COSTS IN HUD'S SECTION 202 PROGRAM

[Section 202 Processing Schedule]

	Ideal	Typical
Fund reservation issued	Sept. 30, 1983	Sept. 30, 1983.
Conditional commitment applied for	Nov. 30, 1983	Nov. 30, 1983.
Conditional commitment issued	Jan. 30, 1984	June 30, 1984.
Firm commitment applied for	Apr. 30, 1984	Oct. 30, 1984.
Firm commitment issued	June 30, 1984	July 30, 1985.
Initial closing	July 30, 1984	Aug. 30, 1985.
Construction start	July 31, 1984	Aug. 31, 1985.
Total elapsed time	10 months	23 months.

EFFECTS OF INFLATION ON COSTS OF 1983 SECTION 202 PROJECTS PROCESSED OUTSIDE OF IDEAL SCHEDULE

Annual inflation rate	0	3	6	9	12
Original fund reservation	$3,100,000	$3,100,000	$3,100,000	$3,100,000	$3,100,000
Actual cost (13 month delay)	3,100,000	3,200,750	3,301,500	3,402,250	3,503,000
Additional cost to HUD for typical project processed in typical time	0	100,750	201,500	302,250	403,000
Additional cost to HUD at typical processing time of 23 months	0	17,420,000	34,840,000	52,260,000	69,680,000
Cost per month for typical project not processing within ideal schedule	0	7,750	15,500	23,250	31,000
Cost per month for all projects [1] not processing within ideal schedule	0	1,451,667	2,903,333	4,355,000	5,806,667

[1] Based on total fiscal year 1984 fund reservations of $536,000,000.

REVISE APPLICATION PROCESS TO ELIMINATE REQUIREMENT FOR SITE CONTROL, BORROWER CORPORATION, AND IRS APPLICATION

Background.—The Section 202 application procedures require that every sponsor, at the time of initial application, submit a proposed site (which must be under control), show preliminary plans, established a separate borrower corporation, and show proof that tax exemption under 501(c)(3) has been applied for. All of these requirements unnecessarily produce extra work and extra cost for the sponsor, HUD, the IRS, and development team members. All of these requirements can be satisifed after the initial fund reservation is made.

Implementation.—Change the application and processing procedures in accordance with the following:

DATE AND ACTION

February 15—Invitations issued by Area Offices.

March 1-15—Area Offices hold workshops and distribute developer's packets.

April 30—Applications due into Area Offices Sponsor submits experience and qualifications, financial capability, local support.

May 1–June 15—Processing and ranking by Area and Regional Offices.
June 15—Submit rankings to central office.
July 25—Congressional notification.
July 31—Sponsors notified of fund reservations.
September 15—Modified conditional commitment submitted: Site information, borrower corporation, preliminary plans, contractor info.
October 31—Modified conditional commitment issued.
November 30—Supplemental info submitted by sponsor: Management info, survey, soil tests.
January 31—Firm commitment submitted: Final plans, survey, cost breakdown.
March 31—Firm commitment issued..
April 30—Initial closing and construction start.

Benefits.—By modifying the application and processing schedule, construction could start three to four months earlier. In this way, construction could begin in late spring rather than in the fall and construction time would be reduced. This would translate into savings in both costs and interest. In addition, up to eighty percent of all site reviews and preliminary architectural reviews would be eliminated because only those projects that are actually funded would submit site and design information. Furthermore, sponsors would save money by not having to option land and form borrower corporations prior to receiving a fund reservation. About 1,000 applications for 501(c)(3) tax exemption would be eliminated. This could save the IRS as much as $500,000 a year.

Under current procedures, it costs approximately $9,000 in staff time, option fees, and expenses for the sponsor and the development team to submit an application under the Section 202 program. In addition, it is estimated that HUD spends approximately $7,500 to review each application. At least 75% of these costs are directly related to the site, the borrower corporation, and the preliminary plans. At least $17,000,000 could be saved annually by HUD, the IRS, and the public by revising the current procedures.

ESTABLISH A "FAST TRACK" PROCESSING SYSTEM WHEREBY SPONSORS WHO ELECT TO KEEP THEIR DEVELOPMENT COSTS TO SPECIFIED MINIMUMS WILL HAVE REDUCED PROCESSING REQUIREMENTS

Background.—During a meeting convened by the Federal Council on Aging, HUD presented the idea of a "fixed-sum" mortgage whereby the sponsor could have maximum flexibility in design issues as long as the project included a minimum number of units for that mortgage amount. HUD's intent was to prevent the continual reprocessing and requests for additional Section 202 loan authority and Section 8 contract authority that are characteristic of the 202 program. Such a fixed amount could be tied to one of two existing HUD limits in the 202 program: the regulatory costs limits (or a percentage of such costs) or a debt service mortgage figured at a fixed percentage of the rents and a specific operating expense ratio.

Implementation.—(1) At fund reservation stage, HUD would determine a level of mortgage and rents which, if adhered to by the sponsor, would allow "fast-track" processing. (2) For sponsors electing to utilize "fast-track" processing, cost processing would be eliminated since they are not exceeding HUD's prototype costs. Additionally, architectural processing could be minimized with only assurances that the minimum property standards and local codes were being adhered to.

Benefits.—It is estimated that this "fast-track" processing could eliminate another four months from HUD processing time. In terms of cost savings estimated to be $15,000 per month per project, this would result in an additional savings of $60,000 for each project where the sponsor elected to go this route. This savings would be over and above the savings outlined in the proposal regarding improved processing time. Additionally, there would be a substantial savings to HUD in terms of staff time spent on processing Section 202 projects.

PROVIDE FOR MAXIMUM GROSS SQUARE FOOTAGE LIMITATION BASED ON TOTAL UNITS RATHER THAN LIMITATION BY UNIT TYPE

Background.—Under cost containment, unit sizes are limited to 415 square feet for efficiency units and 540 square feet for one bedroom units. In addition, special spaces and accommodations are limited to five percent of gross project square footage. For a typical 83 unit, three story project, these limitations create a project of about 60,000 gross square feet. By changing the cost containment rules to allow 725 gross square feet per unit, many benefits in design and marketing flexibility can be realized without increasing total square footage or cost.

Implementation.—Change cost containment regulations to specify that sponsor may choose either method in designing a project: (a) Maximum project gross square footage per unit (with adjustments made for building type) or (b) current method.

Benefits.—Use of either method should not change the total gross square footage or the total cost of a project. Similarly, the total rent necessary to support the mort-

gage should not be any different. Allowing the total gross square footage method will allow more flexibility in the design, however. In fact, the costs of construction under the current method are probably higher because four separate unit types must be designed (efficiency and one bedroom, handicapped and typical). In addition, the architect is limited in flexibility of design by having to work within the constraints of the unit limitations. The long-term marketability of efficiency units could also become a problem in some areas where they are now being built. By allowing a choice of methods, sponsors could propose all smaller one bedroom units at no additional cost to the program if that were more appropriate to the particular market area.

ELIMINATE TWO EXTRA MONTHS OF CONSTRUCTION INTEREST

Background.—When determining the amount of construction interest to be included in the mortgage, two extra months beyond the scheduled construction completion date are included in the calculation. This extra time is included so that interest during rent up can be paid out of the construction loan rather than out of operating expenses. With Section 8, this extra money is not needed because of the vacancy loss payment provisions. In effect, HUD is paying twice. Generally, the extra money received by the sponsor during this period is either spent or deposited in the reserve account.

Implementation.—Change valuation processing to eliminate inclusion of the extra months in calculating construction interest.

Benefits.—For the typical project, the two extra months of construction interest amount to approximately $24,000. Nationwide, the cost is more than $4,000,000. The annual Section 8 contract authority necessary to support this cost is approximately $417,000 or $8,340,000 over the twenty year life of the contract.

CHANGE PROJECT CONTINGENCY FUND TO ONE PERCENT AND ESTABLISH REGIONAL CONTINGENCY FUND

Background.—The project contingency fund has been established at three percent of the mortgage. A portion of the fund can be utilized as an allowance to make the project operational (usually less than one percent). The remainder of the contingency is available to pay for unforeseen expenses. At the completion of construction, any remaining contingency is placed in a project reserve fund. Currently, it is estimated that, on the average, about forty percent of project contingency funds are actually utilized.

Implementation.—(1) Reduce the project contingency fund to one percent of the mortgage. (2) Allow use of the contingency fund for "moveable" items such as maintenance equipment, lobby and office furniture, office equipment, etc. (3) Set aside loan funds for a regional contingency fund to be used in lieu of a project contingency fund. The amount of the regional fund could be established at three tenths of one percent of the total regional office Section 202 allocation. This fund would be controlled by the regional administrator to provide for contigencies in individual projects. Specific instructions for use of the fund would follow the current regulations on using the project contingency fund. At final closing, a mortgage increase note could be prepared to include an increase in the loan from the regional contingency fund.

Benefits.—Currently, project contingency funds account for approximately $23,000,000 per year in Section 202 loan funds. Annual Section 8 contract authority necessary to support this amount is about $2,368,000 or $47 360,000 over twenty years. By reducing the project contingency to one percent and establishing a regional office fund of three tenths of one percent of the total regional allocation, a savings of approximately $13,000,000 per year could be realized with a concomitant savings in annual Section 8 contract authority of $1,340,000 or $26,800,000 over twenty years.

ELIMINATE NET INCOME RESERVE

Background.—A five percent net income reserve is included in the processing of all Section 202 projects. Some area offices take this reserve into account when estimating operating expenses and some offices do not. Because no distribution of surplus cash can be made in the Section 202 program, a net income reserve is not necessary. The vacancy loss reserve of three percent or five percent is sufficient to provide any operating reserve. In those circumstances where the market dictates a higher reserve, the vacancy reserve can be increased. As long as the Section 8 program provides rental subsidy in Section 202 projects, three percent vacancy loss reserve with no net income reserve should be sufficient.

Implementation.—(1) Eliminate net income reserve from processing. (2) Instruct valuation staff to determine appropriateness of three percent or five percent vacancy loss reserve depending upon market.

Benefits.—Elimination of net income reserve will reduce the required income, and therefore the amount of Section 8 contract authority, necessary to support a given mortgage. For an average project of 83 units with a mortgage of $3,100,000 and operating expenses of $145,250, the annual net income reserve amounts to $15,480. For all Section 202 projects, nationwide, this amounts to approximately $2,600,000 in annual Section 8 authority or about $52,000,000 over the twenty year contract term.

In addition to the Section 8 savings, total operating expenses for Section 202 projects will also be reduced. There is no incentive to generate residual receipts or surplus cash in Section 202 projects because no cash can be distributed. As a result, all of the money available for operations is spent by most sponsors and managers of Section 202 projects. The net income reserve ($15,480 for the average project) is included in the annual financial audit and is included in the data base of operating expenses utilized by valuation and management staff in estimating operating expenses for new projects. This historical data causes the operating estimates for new projects to be skewed upward by as much as eighteen percent per year. Over a five year period, this factor alone (excluding the effects of inflation) would cause the total rent needed to support debt service and estimated operating expenses to increase by about thirty-four percent. For the average project, this would amount to an increase in annual Section 8 contract authority of approximately $160,000 and almost $27,000,000 nationwide.

EFFECTS OF NET INCOME RESERVE ON OPERATING EXPENSES AND RENTS IN SECTION 202 PROJECTS

Project year processed	1977	1978	1979	1980	1981	1982
Mortgage amount	$3,100,000	$3,100,000	$3,100,000	$3,100,000	$3,100,000	$3,100,000
Gross potential income	468,924	499,3886	530,790	563,165	596,541	630,951
Occupancy	.97	.97	.97	.97	.97	.97
Effective gross income	454,856	484,404	514,866	546,270	578,645	612,022
Operating expenses	145,250	174,798	205,260	236,664	269,039	302,416
Net income	309,606	309,606	309,606	309,606	309,606	309,606
Net income reserve factor	.95	.95	.95	.95	.95	.95
Available for debt service	294,126	294,126	294,126	294,126	294,126	294,126
Amount of net INC reserve	15,480	15,480	15,480	15,480	15,480	15,480
Amount of vacancy reserve	14,068	14,982	15,924	16,895	17,896	18,929
Total operating reserve	29,548	30,462	31,404	32,375	33,377	34,409
Projected operating expense	145,250	174,798	205,260	236,664	269,039	302,416
Total available for operations	174,798	205,260	236,664	269,039	302,416	336,825
Total rent increase (percent)		6.50	13.19	20.10	27.21	34.55
Total operating expense increase (percent)		20.34	41.31	62.94	85.22	108.20

Note.—Because there is no incentive to generate residual receipts in projects where no cash can be distributed, the total available for operations is usually expended. These expenditures are then certified in the annual audit and are entered into the underwriting process. Projects that are subsequently underwritten using historical operating data from other section 202 projects are processed with higher operating expenses and, consequently, higher rents in order to generate the same mortgage amount.

The figures above show how a typical HUD office underwrites section 202 projects over a 6 year period using historical operating data from previous section 202 projects to estimate operating expenses for projects in process. The compound nature of the process further increases the potential error.

The total percentage increase in rent and operating expenses calculated above does not take into account any adjustment for inflation that may be added during the underwriting process. Any such adjustment would be in addition to the amounts listed.

Notice how a larger and larger gross potential income is needed to support the same amount of mortgage. This occurs even though no real increase in operating expenses takes place over the period. This effect can be verified by measuring the average operating expenses approved for the base year (1977) for all section 202 projects and adjusting for inflation in a particular field office.

Mr. BONKER. Thank you, Ms. McIver, and Mr. Conroy for what I think is very helpful testimony on section 202. We shall now move to our last witness or anchorperson, who is James Womack, director of housing at the National Council of Senior Citizens. Mr. Womack, as with the others, if you can find a way to shorten the statement, we would appreciate it.

STATEMENT OF JAMES L. WOMACK

Mr. WOMACK. Thank you, Mr. Chairman.

I've already provided the subcommittee with a written statement but I'd like to highlight some of the points of that statement, if I

may, to save some time, and to draw your attention to six essential points which address the area of management the of 202/8 housing.

These areas are listed on page 2 of the statement. The first, legislation which has not been implemented by the issuance of regulations or handbook procedures. The second is the poor implementation of the regulations, where they do exist, by the Department. The third is the effect of the administration's own reductions on itself in the areas of organization and supportive services.

Fourth, the effects of the "cost containment," and I place that in quotes because, as I say, it's kind of a hazy description. But we do have the effects of management cost containment taking its toll. The lack of an adequate funding resource being fifth, for post construction problems. We often talk about the development of new construction and what are we doing about providing additional housing. But somehow in the track of the discussion of housing we often forget about how do we preserve the housing developed.

Last, an issue that many sponsors, in dealing with HUD, have either dealt with under the table or are currently arguing with the Department about is in its interpretation of legislation, which you've made available—tenant population.

Covering the first issue, the Congress recently passed legislation which provides for consideration to be given for medical allowances an element of the cost of living which for the elderly and handicapped has increased. Since the initiation of the Brooke amendments, the escalation of these deducations from income were reflected by statute. The Department, in a source, challenged that position, through proposed regulations, which considered income to include the value of food stamps and the like. The Congress again passed legislation stipulating what is to be considered and defined as income.

Today we still do not have regulations to implement this most recent legislation.

However, in the interim, the Department continues to escalate the burden of rent charge by 1 percent per Federal fiscal year, upon tenants, without consideration being given to what you've legislated and enacted.

We feel this is a serious injustice to those people who have appealed to you for assistance and additional consideration for their increased costs in living.

HUD, by failing to issue the revised regulations while simultaneously continuing to raise the level of rent charge, and right now we're at 28 percent and we'll soon be going to 29 percent, and ultimately to the 30-percent limit, is, in effect, denying the additional subsidy that is there for tenants, but that in a manner of speaking is saving the Department the additional outlay of funds.

Another issue that is related to this is in the dealing of information through handbooks and procedures and policy statements. We continually are struggling with the Department on basic management issues, primarily because the Department's emphasis for so long has been on how do we develop housing, instead of also considering the area of management. Today we deal with handbooks that are dated as far back as 1972, when complete housing management systems have gone to computerized methods, and a gap of progress exists similar to the progress in the style, design, and type of hous-

ing evidenced in the last 10 years. We are without a comprehensive HUD 202/8 system of handbook guidance to deal with today's issues.

We are dealing with such basic issues as I set out in my statement on page 4, an issue of whether we include resident manager units in a project. The whole issue of cost containment and development, in cutting down the size of dwellings and eliminating essential units to save dollars impinges upon whether we are able to serve the constituency we are dealing with an adequate housing resource that takes into consideration their total needs.

An example is where we have projects being constructed, with an emergency call system. How are we to respond to that system if there is not a resident manager at night, or if HUD does not provide and approve funding for a host or security system at night to respond? And these issues raise, for example, serious consideration about what is the owner's liability for a system that was installed but is not being serviced? What about that for the city officials, fire department, or ambulance service? What liability do they have to the taxpayer for servicing that system? And there are many, many case law examples that you can find in the public housing field where housing authorities are being held liable for such discrepancies attributable to development processing.

These are the kinds of issues we're having to deal with in management as a result of cost containment, the cutback in designs and the subsequent search for funding to rectify those design deficiencies.

We feel that by not having a central point within the Department and a processing program that is in itself sensitive to the needs of the seniors and handicapped people who reside in federally assisted housing, that we will continue to bear this burden of struggling to maintain our housing program. Be it through a centralized 202/8 office or a task force, this burden has to be addressed in some way.

In the second area regulatory implementation, for us who are on the management level and at the project level, we have a system of annual rent adjustments. That system is terribly flawed. As an example, the last annual rent increase was published February 29 in the Federal Register. Its applicability was retroactive to November 1983.

I would offer to you an example of a project which has its fiscal year operating budget period beginning on October 1. By the time their budget is processed with these annual rent increase factors, half of the annual operating period for that project is already over. We are having to deal with operating facilities as large as 250 units and 300 units, on an income that is based on a prior years' adjustment factor, until HUD's system catches up.

It poses a tremendous cash burden on the owner groups who own these projects, and managing agents handling the project to keep the utilities going, to pay salaries, and to keep the program intact. Essentially, we're carrying what I call later in my statement, "a tremendous float" until the Department processes these annual rent increase factors.

In addition to the annual rent increase factors, I also make mention about the initial startup of HAP funding to projects. In that

area too, owner corporations are having to take on a large float. This is because it takes, from the time of completing construction to the generation of the first HAP payments, up to as much as 3 or 4 months before the project receives its Federal housing assistance funds to help it operate.

Until that HAP payment system starts up, the owner corporation is on its own to meet the utility costs, to meet whatever cost it takes to rent up the building.

I'd like to cover an example with 1 office out of the 25 we work with to demonstrate this point. In this particular office we are working with a project that had its initial rent established during the development stages at $570 per unit per month. Three years later, we are still waiting for that HUD office, jointly with headquarters, to process a revised revision to the initial computation of contract rent, to bring it to almost $100 more per unit.

I listened to the HUD representatives this morning talking about their involvement on the central office level. Yes; the approval was given. But it takes staff time. In the meantime, the people at that project have gone through energy-cutting cost measures; we've turned out lights to try to save utility consumption; we are literally deciding on a day-to-day basis what can we pay. We are advancing money to the project in a hope that the Department can quickly complete the process that has now taken 3 years to rectify.

Mr. BONKER. Mr. Womack, let me interrupt at this moment. You are citing a specific example of an application that is being processed. The administration representative today made note of their cost-containment program. He made a case for their 18-month processing period with an allowance for extensions when necessary.

Now, we hear from Ms. McIver that the average for processing an application is 23 months. She's indicated that the HUD officials are in part responsible for this lengthy processing period. You're sharing with us an example of an application that has taken 3 years. Project costs, of course, are going up every month that it is not being properly handled and approved, or disapproved, by the administration. But how on Earth can you keep this project in the pipeline when there is a cutoff of 18 months?

Mr. WOMACK. Because this project is not in development. It has completed its development and is in management, and we're having to carry that cost ourselves until HUD finishes its processing.

Mr. BONKER. If it's already constructed are you talking about rent subsidies?

Mr. WOMACK. Yes; I'm talking specifically about rent subsidies, as well as increasing the mortgage, because in the initial processing of these projects HUD has stringently taken to task the cost-containment measures in cutting these operating costs. HUD then is having to come back and justify, for example, a field office director having to come back to Washington and justify why they made a mistake in calculating the utilities for this building.

Mr. BONKER. You're seeing delays in processing times that are adding to costs on the management side of projects?

Mr. WOMACK. On the management side and development—a point that I did not make mention of earlier in my statement, but I will here now, is that while these projects are sitting, waiting to be

finally closed, the principal on the mortgage is not being reduced. That's money lost to the Treasury for the mere fact that projects are waiting for final closing, waiting for reviews to be conducted for cost certification or what have you. That is literally money lost that has been appropriated to reduce the debt, not to pay additional interest costs.

Mr. BONKER. Does the administration have a timeframe for post-construction?

Mr. WOMACK. I believe it's within a 1-year period to have final closing.

Mr. BONKER. Mr. Wilden, does the administration have a timeframe for management operation processing?

Mr. WILDEN. The process in question is more of question for the Technical Support Division. This is Linda Cheatham who is the director of that.

Ms. CHEATHAM. HUD does, at the completion of construction, there generally is a 2-month period wherein they would submit the cost certification. It would be reviewed by HUD. Then the project goes to final closing. We expect them to commence amortization within 150 percent. It's supposed to be within 150 percent of the construction period. So if you had a project that had a 12-month construction time they should start repaying the loan 18 months after the initial closing.

Mr. BONKER. Well, we understand that the construction period is running on an average of 23 months.

Ms. CHEATHAM. No; that was processing time. She was saying the processing time ran for 23 months. That's until you get to the point where construction starts.

Mr. BONKER. Begins, yes.

Ms. CHEATHAM. OK?

Mr. BONKER. Yes.

Ms. CHEATHAM. And then once construction starts, they would have 150 percent of that time before they have to start repaying the loan.

Mr. WOMACK. I think the subcommittee might get a clearer understanding if they were to request from the Department, perhaps an analysis or to obtain an average processing time period, of how long that period really is. It is not unusual to find 202 projects which have not commenced their amortization for 3, 4, and I know of projects that have been 6 years.

Mr. BONKER. OK, Mr. Womack. Maybe you could proceed and can wrap up.

Mr. WOMACK. OK; on the issue of HUD administrative reductions, we feel we have a very serious problem. I have cited some examples from our own project operations where our staff is having to complete HUD's own internal paperwork, to complete reviews, just to get things done. We are feeling the toll of HUD staff reductions, of the travel restraints. We have projects that literally have never been visited by a HUD representative.

We do not feel that this is adequate servicing of the loans by the Department, nor does it help us—we who are having more regulations and systems imposed upon us, to be able to adequately respond to HUD issues.

Mr. BONKER. I just would add that the regional director of the San Francisco office should probably have restraints on his travel.

Mr. WOMACK. That was my home office.

I think a matter of a critical nature in the area of HUD reductions, has been the whole issue of informational systems. One of the things we feel that has been completely stripped and should not have been is the issue of information to the elderly on where they can go to seek housing. The latest issuance that's been made available by the Department is dated 1979. It is a listing of buildings that were at that time completed, and ready for rent up. It was based on data that was collected prior to 1978.

In the ensuing years we have had no updated information being distributed. Yet, even within my own operation it is not unusual for me to see at least 5 to 10 letters a day, as I am sure it is with you from your constituency, asking, "Where can I go? Where is there housing?" And yet this information is something that should not be subjected to the whole issue of cost containment, as it was by the Department in 1981.

We feel that the senior citizens and handicapped people of this Nation have a right to know where the housing exists. We recommend to this subcommittee that you instruct HUD to update and publish that publication and make it available to the seniors and handicapped people of this Nation.

We talk frequently about cost containment and most of it is drawn upon development issues. You are familiar with last year's efforts by the Department to sell, through a special sale, mortgages in the 202 program. Literally 2 weeks ago, we began receiving letters asking project owners to amend their section 8 HAP contract to provide for the withholding of debt service payments from monthly HAP payments. I want to give to you a frame of reference to understand this issue.

The debt service payment represents up to as much as 60 percent of our projects operating costs. The HAP payment itself represents upward of 75 to 80 percent of a project's income. When we are able to turn that money over, through investments, and to string out our payments for operating costs; that is, lights, and all, we do so with 80 percent of our income coming from the Federal Government.

You strip from us 60 percent of that money by withholding the debt service portion of the HAP, and I will revise the word "withholding," and we will have a problem. The Department uses the word "withholding" in its letter. I will tell you that it's the "prepayment" of the mortgage, because the HAP monthly payment is a forward funding vehicle. So in a sense the Department would be collecting its mortgage payment before it's really due. And I wonder and ask you, "Has there been anyone from the Department that has come before the Congress and said that this action is necessary because we have been delinquent or that we have defaulted on our mortgages, or that we have failed to make mortgage payments in a timely manner?"

We do not feel this kind of action, to cut costs for the Department, is justified. In the long run, this action could seriously jeopardize the ability of owners to maintain a stable financial oper-

ation from month to month by the loss of such a tremendous part of the projects cashflow.

Further, I submit that if this action passes with this committee's observance, the Department will continue to look for ways to withhold additional funds, such as our reserves for replacment. The thought process behind that would be, "You haven't replaced any equipment yet so why should we fund this money and have you earn interest to build the pot further? We'll just withhold these funds."

To the point that it becomes, "Well, the only legitimate bills you have that you can place before us are utility bills, payroll, or what have you, and you can go ahead and pay those and we'll come back a month later and reimburse you for it." This then negates the entire forward funding system concept of the section 8 program.

You will be asking us to carry a much larger float or cashflow burden to make our ends meet, in the face of what the Department is already doing on the management side, in cutting rent increases, reducing annual adjustment factor increases, cutting line items in our annual budgets. We cannot do both and survive.

We ask this subcommittee to instruct the Department to cease this activity of trying to force project owners to make these types of funding tradeoff cuts. Cuts which I might add are being done through letters and not through the Federal Register or a public policy statement. Letters which are directed to owners, and in a format that is interesting. Letters that would ask us to amend our HAP contracts, and which could potentially result in the withholding of any kind of payment from our monthly operating costs.

You asked earlier, Mr. Chairman, whether the Department has set up any circumstances for an adversarial role. I would like to submit some samples of the letters that we are getting from the various offices because, indeed, that is what they have begun to set up. If we do not amend our contract, we might not receive consideration for future rent increases.

If that doesn't set up an adversarial role, I don't know what other tactic the Department can use.

Mr. BONKER. The record will remain open if you have additional documentation you would like to submit for the record.

[The information follows:]

NATIONAL COUNCIL OF SENIOR CITIZENS,
Washington DC, April 19, 1984.

Re Section 202/8 oversight hearing management issues.

Hon. DON BONKER,
Chairman, Subcommittee on Housing and Consumer Interests, U.S. House of Representatives, House Office Building Annex 1, Washington, DC.

DEAR CONGRESSMAN BONKER: I would like to thank the Subcommittee on Housing and Consumer Interests for permitting the Hearing Record to remain open for receiving additional documents in support of statements made regarding actions of the U.S. Department of Housing and Urban Development (HUD). These HUD actions pertain to the withholding of Section 8 Housing Assistance Payments (HAP) for purposes of "prepaying" the project's monthly mortgage debt service payment; and, failing to issue program regulations which would enable project owners the ability to implement revised statutory income definitions in determining an elderly household's rental charge.

I have enclosed two (2) sample issuances, marked Exhibits "A" and "B" which address the withholding of HAP funds. Exhibit A, issued by the Houston Multifamily Service Office, Region VI, seeks to explain that a new procedure is to be established to effect the collection of project mortgage debt service payments. This office of

HUD implies by Exhibit "A" that there does not now exist a uniform system of collecting such payments. In reality, a system does exist whereby the project owner, like millions of individuals and corporations, writes a check monthly for the mortgage payment.

Exhibit "A" in closing, requests that the project owner simply acknowledge concurrence of this proposed action by signature. I would suggest that much more should be and is required, for the project owner would be:

1. Amending the Section 8 HAP Contract to the detriment of the project's financial stability; and

2. Illegally amending the Section 202/8 tenant's Lease Agreement, for it is this document which describes the basis upon what HUD may do with the funds ascribed to the tenant (see Lease Agreement section enclosed). The partial withholding, by HUD, of Section 8 HAP payments, in our opinion, would necessitate project owners executing new Lease Agreements to provide for the manipulation of the tenant's housing assistance. Such executions of leases would entail a complex and cumbersome implementation process and would result in a significant cost to project owners.

The second sample issuance, Exhibit "B", was issued by the Manchester Office, Region I. This Exhibit goes far beyond Exhibit "A" in many respects. Exhibit "B" actually states that a revised system is already in place. The opening statement of the second paragraph further notifies us that "new" project owners will not have the option of accepting HUD's change.

During the hearing you asked whether there have been any circumstances in which an "adversarial condition" has been created by HUD with project owners. I offer for your consideration the third paragraph of Exhibit "B." Statements which subject the project owner to a blanket approach bordering upon blackmail, in our opinion, do not engender a spirit of cooperativeness among the parties. Furthermore, the paragraph does not answer any questions, but instead only serves to raise questions such as:

1. Will future Contract Rent Increase Requests be denied, despite the legitimacy and justification of circumstances presented?

2. Will HUD impose additional program and/or fiscal policy requirements that might not otherwise be imposed should the project owner not concur in the withholding action?

3. Contrary to the Exhibit's opening statement, HUD frequently does withhold interest payments from requisitions made during construction periods. If the attachment is not approved, will HUD then require the project owner to wait until the completion of construction to make funds available for the cost of that construction?

Exhibit "B", in closing, states that benefits will accrue to the project owner, yet the entire Exhibit fails to cite such benefits. The only benefits seem to accrue to HUD at the expense of the project owner and ultimately tenants. I believe that the two Exhibits, and especially Exhibit "B", exemplify the picture I have presented to the Subcommittee of HUD's action in this matter.

In addition to providing samples of HUD actions, the Subcommittee also requested that I further explain my statements regarding HUD's inaction to produce implementing regulations. On December 29, 1982, HUD published in the Federal Register proposed rules redefining the term "annual income." At the conclusion of the comment period, over a year ago, HUD had received the largest number of comments in opposition to the rule ever received by HUD. In cooperation with HUD officials, the House (H.R. 1) and Senate (S.B. 1338) in July 1983 revised and approved a detailed definition of "annual income." The legislation was subsequently enacted into law on November 30, 1983.

The final legislation made no radical departure from previous pieces of legislation as it pertained to the subject of income. The legislation, when enacted, simply revised percentages and dollar figures for various deductions; and, defined for HUD what was to be considered as income for determining rent. Substantially, it was the December 29, 1982 proposed rule which the Congress re-wrote on behalf of its constituency. A proposed rule which, in itself, attempted to revise a definition of annual income which the Secretary of HUD prescribed as authorized by the U.S. Housing Act of 1937, as amended. Since the Housing and Community Development Act of 1974, the definition of "annual income" has reflected the same legislative and regulatory format as seen today.

The statutory definition enacted last year is not new to HUD, nor to those to whom the statute applies, witness the record response received by HUD during the proposed rule comment period. Yet, HUD has not proceeded to issue a Final Rule to implement and incorporate the revised statutory definition enacted in November 1983. The Final Rule, in part, should incorporate important revisions such as:

1. adding a standard deduction given elderly households in the Section 8 Program of ten percent;

2. increasing the elderly and handicapped deduction previously given from $300 to $400 in public housing and establishing this deduction in lieu of a three percent medical-related deduction criteria for Section 8 households.

Thousands of elderly and handicapped federally-assisted housing residents implored the Congress to enact legislation during 1983. The Congress enacted the legislation in response to the residents urgent pleas for relief in the cost of housing. However, the lack of federal rules to enact your legislation is seen by many to be a deliberate and direct attempt by the Administration, i.e., HUD and OMB, to withhold the additional housing assistance which would come about by a Final Rule publication. We find the inaction by HUD to publish the Final Rule unconscionable and thwarting the will of the people already acknowledged by Congress.

Should the Subcommittee membership or your staff have additional questions or desire further information on either of the above-stated issues, please feel free to contact this office at (202) 628-1440.

Again, we wish to thank you for expressing you continued interest in this valuable housing program by conducting the Hearing on the Section 202/8 program.

Sincerely,

JAMES L. WOMACK,
Director of Housing.

Mr. BONKER. Do you want to wrap up, Mr. Womack? Then we can get on with questions.

Mr. WOMACK. OK. I would recommend in this statement to the subcommittee, that a supplemental loan managment fund be established to preserve and maintain our buildings. We're proud of them. We are proud of how we have occupied them and would like to see them maintained that way. We're not asking for a full-fledged modernization program but an ability for the Department and the owners to address development deficiencies and other needs that were not forseen when the program began.

I thank you for your support and the time that you have given toward improvement in this program. We certainly are willing to work with you on whatever mechanism you may choose to further this program. Thank you.

[The prepared statement of Mr. Womack follows:]

PREPARED STATEMENT OF JAMES L. WOMACK, DIRECTOR OF HOUSING, NATIONAL COUNCIL OF SENIOR CITIZENS

Mr. Chairman and members of the Subcommittee, I am James Womack, Director of the Housing Department of the National Council of Senior Citizens (NCSC). We appreciate the opportunity you have permitted, to allow us to present our views on management issues in the Section 202/8 Elderly Housing Program, administered through the U.S. Department of Housing and Urban Development (HUD).

The National Council of Senior Citizens has itself sponsored eighteen (18) Section 202/8 senior citizen facilities. In addition to the sponsorship of these facilities, NCSC has organized both development and management affiliates which have now extensive experience in the Section 202/8 Program. Between NCSC, as a sponsor, and its two affiliates, we are involved with over 5,600 units of Section 202/8 housing nationwide. We are currently working with over 25 different HUD Area and Regional offices. Therefore, we believe that we can offer to you a range of insight which will enable you to clearly focus on management issues from the applicant and tenant level to the Headquarter's level of HUD.

Today, I would like to focus upon six (6) management areas which merit, in our opinion, further monitoring by the Congress, or additional legislative language to clarify the policy framework upon which HUD relies in its issuance of regulations and handbook guidance. These areas are as follows:

1. Legislation which has not been implemented by the issuance of regulations and/or handbook guidance;

2. Poor implementation, by HUD, of program regulations;

3. Effects of the Administration's reductions on its own organizational functioning;

4. The effects of "Cost Containment" in Management, which threaten the viability of the program;

5. Lack of an adequate funding resource and mechanism by which post-construction issues are addressed;

6. The need for further legislative clarification on the rights and responsibility of Section 202/8 project owners to establish additional tenant selection criteria beyond that imposed by HUD.

LEGISLATION—REGULATIONS

In the first area, the lack of implementing regulations where legislation has been enacted is a very serious problem. Low-income seniors and handicapped persons throughout the nation appealed to you for legislation which would not only standardize the definition of income for rent among HUD's low-income housing programs, but would also take into consideration the additional cost of living felt and documented in the area of medical costs. The Congress, in responding to its constituency, enacted such legislation. Although the legislation basically follows, in format, a rent determination system that began in the 1960s with the "Brooke Amendments," we, today, do not have the necessary regulations to implement your modifications of law.

Seniors and handicapped families are paying a greater share of their limited income towards shelter rent in federally assisted housing. A greater share of limited income based upon legislation which the Congress enacted and the Administration was quick to put in place, if only by stages of one percent (1%) per federal fiscal year. HUD, by failing to issue revise regulations, while simultaneously continuing to increase the rent-to-income percentage is, in effect, withholding from our low-income senior and handicapped housing population the additional financial housing assistance which would come with the issuance of the regulations. In short, until your legislation is reflected, by HUD, in revised regulations, our low-income seniors and handicapped families residing in low-income housing will continue to suffer under a greater burden of rent charges without consideration for the real cost of living incurred by those families.

Today, we who develop and manage senior citizen housing continue to struggle with program officials who are not sensitive to the issues inherent in the operation of a Section 202/8 program project. In large measure, the struggle pertains to the wide ranging perceptions of HUD officials, who, without benefit of a centralized policy statement and program guidance system, rely upon other program handbooks and the like to deal with issues unique to the senior and handicapped housing program. Without having a central Elderly Housing Program office within HUD, a complete and up-to-date system of handbook guidance and regulations, we will continue to debate such issues as:

Whether garbage disposal units for handicapped units are considered to be an item of extravagance and not eligible for inclusion in the development cost of the unit;

Whether various non-moveable equipment and furniture items for use by senior residents may be purchased using mortgage proceeds; and

Whether a resident manager unit may be included in the building's design and mortgage.

This latter example, the consideration of a resident manager unit, alone, has wide ranging implications and impact upon the operation of the building and its program. Consider, for example, a building which has installed an emergency call system for use by residents without there being a resident manager unit, nor sufficient management funding approved by HUD to respond to that emergency call. Complex legal liability issues arise for not only the project owner, but the city's fire, police and health representatives who also sense a degree of liability to the taxpayer resident—a resident who expects that there *will be* someone there to respond to that emergency call.

By not having, within HUD, a central policy *and* program point sensitive to the needs of the senior citizen and handicapped person, local HUD officials and program operators will continue to debate such issues with a myriad of unsatisfactory solutions impacting upon those whom we serve.

REGULATION IMPLEMENTATION

In the second area I have identified, the implementation of regulations by HUD, we, as program managers, continue to suffer under the disturbingly slow processing of the Section 8 Annual Contract Rent Adjustment Factors. The Department of HUD has been quick to move toward eliminating the automatic adjustment of Con-

tract Rents stipulated in the Housing Assistance Payment (HAP) Contract. HUD, for example, in this year's processing of the Annual Rent Adjustment Factors, finally published factors on February 29, 1984 for a period beginning in November 1983. Meanwhile, Operating Budget approvals during this period were held in pending status for up to six months (one-half of the project's fiscal year). We, at the project level, are expected to continue to operate the building on a previous year's rent level.

The Operating Budget process is a vital management function for the project's operation. It permits the project to meet its operational needs, as well as mortgage debt service in an organized manner. HUD must improve its processing of the initial project HAP payments, which in many instances take up to three (3) months to receive; and, process in a timely manner Annual Contract Rent Adjustment Factors which enable project owners to meet increasing project expenses.

The issue of appropriately processing rent and determining levels also has its roots in the manner in which HUD processes project development material. Under HUD's new cost-containment policies, many Field Offices are developing unrealistic management cost levels. In recent cases, we are finding that some cost levels were established arbitrarily and capricously. These actions have lead to project owners, after the building is completed, having to choose between trying to provide a sound level of maintenance and paying the utility bills. As an example, we are working with one HUD office to rectify a Contract Rent level established at $548 per unit per month (PUM) during development processing. Today, we are still awaiting the completion of HUD processing to re-establishing the original Contract Rent basis at $607 PUM; and for two additional increase requests, bringing the Contract Rent up to $643 PUM. The two additional requests were necessitated because three (3) years have now passed. Bear in mind, that the project is still operating at the original $548 PUM amount and having to choose between what can and cannot be paid for daily operations. We, as well as the sponsor, are advancing funds to the project simply to keep it afloat.

HUD REDUCTIONS

In part, these problem issues stem from the third area I'd like to highlight—the reduction of HUD's administrative and organizational functions. The reduction in staffing and supportive service functions is having a dilatorous effect on the Field Offices' ability to properly service the program. The reduction in HUD's organizational structure can be seen in areas such as:

Improper reviews are being issued because program staff have not received adequate training;

Project owners and management agents are simply completing HUD's own review forms to speed up the processing time or to fulfill HUD's internal monitoring goals;

Many on-site reviews are now being completed through the mail, due to travel restrictions and reduced staff servicing a growing workload.

Mr. Chairman and members of the Subcommittee, I believe that herein lies an element of short-sightedness by HUD if HUD only intends to deal with the serious issues of today and not address the minor issues which, if not resolved now, will become tomorrow's serious issues. This condition need not be if adequate funding is made to appropriately staff program units, conduct training programs and respond properly to the program issues.

As you know, the population segment of the United States of which we term senior citizens is rapidly growing. Many more elderly households are finding that their income is not sufficient to enable them to afford shelter in today's economic market. Yet, a seemingly insignificant resource has been stripped from this segment of population. That resource is information.

When this Administration began its "Cost-Containment" Program, the decision was made to discontinue publishing a current register of senior citizen and handicapped low-income housing facilities. The latest publication of such a register was printed in 1979, using information on properties open for occupancy prior to 1978. In our opinion, the composite listing of federally assisted senior citizen and handicapped housing projects may soon be lost to this growing population, because HUD may find it too expensive to update this central pool of information. However, it is by far more costly to those senior households to whom we choose to deny this resource of housing information. Many seniors and their children are searching for this bank of information to find decent, safe and affordable housing. HUD should update and continue to publish periodically the composite register of elderly and handicapped facilities. The register of information should be made available to everyone despite what other "cost-containment" issues are debated.

MANAGEMENT AND "COST-CONTAINMENT"

In the fourth area, we see a continuing pattern of efforts by HUD to alter existing program contractural agreements without benefit of publication in the Code of Federal Regulations or public discussion with Section 202/8 project owners. Last year, as this Subcommittee knows, such alternation efforts took the form of conducting a "Special Sale" of Section 202/8 mortgages—a Sale which threatened the very intent and core of non-profit owners working together with HUD to operate the facilites. This year we have begun receiving letters asking that we amend our Section 8 HAP Contracts to provide for HUD to withhold a portion of our monthly HAP payment to cover the monthly debt service.

Has anyone from HUD appeared before this Subcommittee or any other to suggest that the non-profit owners who operate the Section 202/8 projects are seriously and flagrantly delinquent in making our mortgage payments on the Direct Loans? Has HUD given to you any reason as to why they should withhold the mortgage payment before it is even due by the owners?

If HUD is permitted to withhold its debt service payment from our monthly HAP payments, non-profit project owners will be called upon to carry a greater amount of the building's operating cash needs, which I'll call "float." This "float"is currently offset by the forward funding nature of the monthly HAP payment system. In addition, when these funds are advanced, we as managers prudently invest the payments using the earned interest to cover or defray our short-term "float" conditions. If you permit HUD to reduce our monthly payments by nearly 60 percent to cover the pre-payment of debt service, we the non-profit owner will face difficult financial conditions from month to month.

Moreover, should this withholding system occur, it is with a certainty that other operating expenses and reserves will also be subject, at HUD's discretion, to withholding action. Ultimately, the non-profit owners of Section 202/8 projects could then be asked to carry all expenses (100 percent of the "float") lasting for a month period or more before reimbursement is made through the HAP system.

We understand this Administration's predicament in seeking ways to reduce the Federal debt through such areas as eliminating or transferring "float" amounts. Nevertheless, must we sacrifice the very financial contingency which non-profits utilize to operate despite HUD's lengthy processing times for interim rent increases? Must HUD, with your blessing, take the project's interest income which in part, offsets the stringent cost-cutting activity being taken by HUD on project Operating Budgets? We suggest that, until HUD is able to rectify the deficiencies which I have already elaborated upon, deficiencies which can be demonstrated as causing a higher level of debt than is necessary, they be directed not to install any type of withholding system on the monthly HAP payments.

BUILDING CORRECTIONS

In the fifth area, I would like to bring to your attention a problem which will become of increasing concern in coming years, that is, the ability of HUD and project owners to correct building defects. Many buildings constructed in the early period of the Section 202/8 program contain defects of a design and/or construction nature which can be directly traced back to HUD mandates or processing direction imposed during the projects's development. In addition, as HUD moves to compliance requirements pertaining to only local and state codes, which are constantly being revised, we need to investigate the possibilities of establishing a "Supplemental Loan Fund." This fund could be used to address building defects, which cannot and should not be addressed by utilizing other project reserves.

Non-profit owners are very proud of their projects and the program you've helped in forming. We want to preserve this important housing resource before it deteriorates to a condition simulating that found in other federally assisted housing programs. We have found that if you invest the little it takes in a building to correct flaws and to preserve it, that building will multiply that investment through greater functional returns.

TENANT SELECTION PRACTICES

The final area of management issues, is the area of marketing the project. As non-profit sponsors and owners, we are especially sensitive to the issue of compliance with Civil Rights Acts, Fair Housing legislation, etc. However, we are also keenly aware that a senior citizen facility can quickly turn into a building which does not represent what we envisioned at the outset. Fill the building with an entire population which is over eighty and you will experience in short time a rapid, if not

a complete, turnover in the resident population. Such turnovers have a startling social, emotional and mental impact upon the remaining resident population. Occupy a building with only a few men in residence, and the resident population becomes concerned about conducting group activities in an atmosphere and environment conducive to the social well-being of all.

As non-profit project owners, we believe that we can and do have a responsibility towards the senior in residence to establish and maintain additional resident selection criteria within the intent and purposes of the Fair Housing and Civil Rights Acts. We do not believe it wrong to establish at initial occupancy and to thereafter maintain a building resident population which is reflective of the general local community of seniors insofar as age and gender is concerned. We believe that this replication can be made in concert with any Affirmative Fair Housing Marketing Plan goals which may be imposed by HUD.

It is important that we not only provide new structural communities for seniors with decent, safe and affordable buildings, but that we also pay attention to the kind of community we place our seniors into. That we are careful to design and create through occupancy activity, independent-living facilities, not nursing homes. That we design and create a healthful and socially enjoyable living environment, with the involvement of both men and women; and not housing facilities which, due to HUD's strict interpretation of the statutes, prevents owners from establishing additional selection criteria within the scope and intent of Fair Housing and Civil Rights legislation.

In conclusion, NCSC along with its sister non-profit sponsors and owners are extremely proud of our communities of senior and handicapped households living in Section 202/8 buildings. We have heard many HUD officials proclaim the Section 202/8 program to be one of the best operated programs in the Department. We believe that, with your attention given to the issue I have highlighted, it will continue to be a viable and financially stable haven for the low-income senior and handicapped person.

Mr. BONKER. Thank you, Mr. Womack, for an excellent statement and particularly for your recommendations to the subcommittee. We are looking for ways in which we can improve the program.

Ms. McIver, do you think that in view of what you have said about this cancellation policy, that Congress should set some statutory limit for HUD to process these applications? In other words, HUD's coming to us and saying that, "Listen, we want to get tough here and set a time limit and offer waivers or extensions, if that's necessary."

But you're coming to us and saying that the problem is not the sponsors but HUD. So, should we do to HUD what HUD is doing to you and set some rigid timeframes for processing these applications?

Ms. MCIVER. I'm not certain that would accomplish what needs to be accomplished. It's very, very difficult to get that specific in the statute, and the proper way to handle those kinds of things is, traditionally, through the regulation route.

I think that if we could accomplish the establishment of the section 202 task force, then the task force could develop a responsible and reasonable format for processing section 202 applications.

Right now HUD has a processing time schedule outlined in the handbook and it includes timetables like 60 days for a sponsor to submit a conditional, 60 days for HUD to process, et cetera. All HUD really needs to do is enforce the timetable that they have already outlined. I believe it should be enforced on the part of the sponsor, as well as on the part of HUD. I think it takes both parties.

Mr. BONKER. The record should show that Mr. Ridge is now present on the panel. Mr. Ridge, do you have any questions?

Mr. RIDGE. Yes. Thank you, Mr. Chairman.

I want to thank you for the opportunity to ask a few questions and apologize to the panel for being late. This is an area where I have the unique opportunity not only to sit on the full committee that authorizes and appropriates it, that being the Banking, Housing, and Urban Affairs, but also to see and learn a little bit about the implementation of the 202 program as well, and I want to thank you. It's been very enlightening.

Mr. Womack, you recited a horror story about a 3-year delay in getting a rent adjustment decision of some kind and there were several suggestions regarding the reason for these processing delays. Is it your conclusion that the primary source of these delays is the absence of a sufficient number of personnel to process?

First of all, what did HUD tell you? I'm sure you've been calling, writing, and doing everything—you probably called your Congressman and said, "Hey, what's going on?" What is HUD's response and then what's your opinion?

Mr. WOMACK. HUD's response has been "it takes time to go through the echelon of field office, regional office, to the Assistant Secretary's office, and then back down again."

Mr. RIDGE. I'm glad to know they give you the same answers they give me.

Mr. WOMACK. That has been the answer. My experience has been, both from within and outside the Department, staff training, the amount of staff being involved, as well as an understanding that from the perspective of the field level position, to come to central office with an error, is not the most prudent of things that one wants to do. There are certain repercussions that will happen from that, additional monitoring roles and things like that will be imposed upon the field staff level. In short, fallout.

So, one takes a tremendous amount of time to build enough justification, to find ways of not saying, "We made a mistake; we blew it."

Mr. RIDGE. Now I know the flip side of that. I know HUD, in many instances, is willing to meet with sponsors—at least it's been my experience—to try to help avoid some of the forseeable problems with applications and, hopefully, to ensure that there won't be any delay because the application is not properly completed.

Is it your experience and those of men and women with whom you associate that this opportunity to meet at the preapplication stage, to avoid those kind of problems, is available to you as well? And if it is available, do people take advantage of it?

Mr. WOMACK. It's available to people who take advantage of it but I cannot attach that much significance to the workshops. That's really what you're talking about.

Mr. RIDGE. Yes.

Mr. WOMACK. This is a workshop that's held before the application is submitted, and which basically tells you what the selection point system is. It does not tell you that "We—HUD—will ascribe certain theories of cost cutting to the project budget process," and that "Unless the management cost can fall within the total scheme of that budget, the project can't be approved."

Mr. RIDGE. OK.

Mr. WOMACK. And so the owner, sponsor, is forced to look at—well, how can cuts be made to make this thing work? And we, at the tail end, management, live with these horrors.

Mr. RIDGE. Mr. Conroy, I noted in your joint statement that you gave some recommendations, one of which was that interest rates should be capped at about 9¼. I presume this is based on some calculations that beyond that the interest and the financing would be unavailable and there would be a limitation. Could you give me a little background as to how you arrived at that particular figure?

Mr. CONROY. Well, the 9¼ is what the current interest rate is.

Mr. RIDGE. Right.

Mr. CONROY. There's no magic about that. It could be reduced to eight. It could be whatever it needs to be. The problem is that the higher the interest rate, the more unfeasible the project becomes or the more important the fair market rents become to the project.

In some areas it wouldn't matter what the interest rate was because the fair market rents are high enough to support a higher mortgage. In other areas, the 9¼ percent interest rate won't work because the fair market rents are too low.

So, whenever HUD puts this cap of fair market rents on project feasibility, then interest rates are going to have a profound effect on the feasibility of specific projects.

We're simply saying that in our experience, the 9¼ percent rate is difficult enough to work with. To increase it to 10¼, we think, would, in effect, redline a lot more areas of the country from any chance of participating in the 202 program.

And also we're looking at the cost to HUD of doing that. I haven't looked at the other side of it as to how that subsidy—if in fact a subsidy is necessary to reduce the interest rate from whatever the Treasury borrowing rate is—I don't know how much that would cost.

I do know what it would cost the program itself, on a per unit basis, to raise it, just in terms of the amount of subsidy HUD must provide to repay the loan—the amount of section 8 subsidy.

So, I think some study would need to be done to see how much reducing it from 10¼ to 9¼ percent would cost.

Mr. RIDGE. Ms. Young, one final question. There is always some debate as to whether or not there are enough regulations, whether or not they're promulgated in time. Mr. Womack suggested that many of the problems arise when there don't appear to be any regulations available to cover a particular subject. I understand that HUD has a policy allowing nonprofit sponsors to require one mandatory meal per day and they get into those kinds of regulations.

Are these guidelines helpful or obstructive? And do you think that this would also be a good area for that task force recommended by Ms. McIver to get into?

Ms. YOUNG. I was intrigued by Mr. Womack's concern over the lack of regulations. Having administered Federal housing programs for 16 years, I might take the opposite view, that regulations have been particularly difficult to administer, impossible to follow, and one of the things I always thought was wonderful about the section 202 program was that it had fewer regulations than any other housing program I have seen.

So, Mr. Womack, you may be sorry when they put that book together.

I think that some regulations, of course, are necessary and there's a need to address those issues that have to do with the intent of Congress. What we have seen in years past, and it continues to be, that the intent of Congress, somehow, becomes subverted in the language of the regulations, and I feel that that has always been a critical area, one that has provided for some of the adversarial conditions that do exist in some places between HUD representatives and those of us out in the field.

I think that the lack of opportunity to talk at the beginning has been the problem in setting forth many regulations that managers then find themselves having to follow. I'm sure that AAHA would support a task force to study the 202 program, and its problems, and perhaps even be more involved than anyone has ever been before in putting together regulations. I know that HUD has brought people in from the field to work on regulations. They did that in the section 8 program. And those regulations actually were fairly good ones.

I personally would like to see us move not toward more regulations, but return to a time when the Federal Government and the State and regional offices acknowledged the fact that people who administer these programs are capable of doing it, and that the least restrictive regulations often result in the best administration of the program and the best use of the funds available.

Mr. RIDGE. At a time when the Government gets called upon, it seems, to regulate absolutely everything, your statement is very refreshing with regard to regulations, particularly in an area that you've had so much experience. Might I ask just one final question?

In the time that you've been working with 202 housing, and in some of the regulations, have you had a chance, or is it customary for HUD to come out, to talk to your association or to people such as yourself? Is it customary, routine, before HUD promulgates regulations, do you have any input into that process at all?

Ms. YOUNG. There is no handbook that exists specifically for the 202 program. Those that exist for the section 8 program or Public Housing Programs for management matters have always been put together in this way. HUD releases preliminary regulations and people are given an opportunity to respond to those. So, within that timeframe people do submit their views and their ideas.

I must say that in the years that I've been involved in this program and in this process, I cannot really recall where regulations were changed substantially as a result of that interaction.

Mr. RIDGE. You anticipated the next question. Given that opportunity to comment, once you read them in the Register, have you ever detected a change based upon a criticism or comment?

Ms. YOUNG. Not initially. There have been some changes that came about later on because of more or less a grassroots effort to overturn a regulation that really was impossible to carry out. And I can recall two instances, I believe, in the section 8 regulations where that did happen.

Mr. RIDGE. Thank you very much. Thank you, Mr. Chairman.

Mr. BONKER. Thank you, Mr. Ridge. I'd like to thank all of the witnesses for coming today. Mr. Womack, on page 2 of your statement, you made reference to the Brooke amendments and the fact that they weren't being fully implemented. If you could supply the committee with a little more specific information, we'll try to get a response from HUD as to why these amendments are not being implemented as Congress intended.

Mr. WOMACK. I will make that available.

Mr. BONKER. I want to thank you all once again for attending this hearing.

The subcommittee will stand adjourned.

[Whereupon, at 12:22 p.m., April 11, 1984, the hearing was adjourned.

APPENDIX

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT,
OFFICE OF THE ASSISTANT SECRETARY,
Washington, DC, July 11, 1984.

Hon. DON BONKER,
Chairman, Subcommittee on Housing and Consumer Interests, Select Committee on Aging, House of Representatives, Washington, DC.

DEAR MR. BONKER: This is in response to your letter of May 21, 1984, to Deputy Assistant Secretary Silvio DeBartolomeis, transmitting questions on the Section 202 program from Congressman Hammerschmidt and yourself.

Our responses are enclosed. Congressman Hammerschmidt's and your questions are grouped separately and the answers are in the same order as presented in your letter.

We hope this information is helpful to the Subcommittee. Should you need any additional information, please do not hesitate to let us know.

Sincerely,

MAURICE L. BARKSDALE,
Assistant Secretary.

Enclosures.

QUESTIONS FROM CHAIRMAN BONKER

Question. It is my understanding that the Department encourages the participation of experienced nonprofit sponsors in the 202 program either as sole sponsors or in cooperation with local organizations without previous experience in housing development. Is that correct?

Answer. Yes.

Question. Many of these larger sponsors operate over a broad geographic area, even nationwide, have full-time professional staff, and are well financed. These sponsors typically select general contractors at various stages of the development process, including after HUD approval of a 202 application and after detailed plans and specifications have been prepared. Why, then, do you contend that all contractors selected through negotiation must be regarded as having participated in the development of project plans and specifications?

Answer. While it is true that general contractors may be selected at various stages of the development process, our experience has shown that, in almost all cases, contractors have been selected before a conditional or firm commitment application is submitted by a Section 202 Borrower. These contractors not only participate in the design phase, but assist the Borrower in developing its construction budget for submission with the conditional and firm commitment applications. Further, it has been the argument of Sponsors who oppose competitive bidding that the ability to negotiate with a contractor on a sole source basis is essential so that the contractor can be involved in the design phase and identify possible cost containment measures. It was in response to this argument, among others, that the Congress directed that certain projects be exempt from competitive bidding.

Question. The HUD mortgage insurance programs (including those used in connection with Section 8 subsidies) have well-developed rules, based on equity and fairness, as to when a loan increase can be approved because of a necessary change order during construction. Contractors rarely are selected through bidding procedures in the FHA programs. Do you agree, then, that contractors selected through negotiation in the 202 program should not be subject to rules that are more restrictive than their counterparts in the FHA programs?

Answer. The Section 202 program and the FHA multifamily mortgage insurance programs are quite different with respect to their budgetary impact. The Section

202 program involves the direct outlay of Federal funds to nonprofit Borrowers, both in terms of the Government's financing the cost of construction at below market interest rates and the required Section 8 rental assistance payments. For the most part, FHA multifamily mortgage insurance programs involve private, profit motivated developers and unless there is a default and assignment of the mortgage to HUD, there is no outlay of Federal funds. Further, throughout the history of the FHA programs, the market for the units produced has been largely unsubsidized. Also, unlike in the Section 202 program where rents are based on the cost of construction, in the mortgage insurance programs, rents are based on a reasonableness test or comparability analysis which considers the rents with market is willing to pay for comparable, unassisted units. With respect to mortgage increases on insured versus Section 202 projects, we offer the following. The rules for mortgage increases on unsubsidized, FHA insured multifamily projects differ from those applicable to subsidized, FHA insured multifamily project. For example, while change orders which involve betterments may be approved for unsubsidized projects and considered as a basis for a mortgage increase, they may not be so considered on an insured Section 8 project. Increases in contract rents for Section 8 projects are limited by the amount needed to support mortgage or loan increases generally caused by necessities, additional requirements imposed by local governments, unforeseen increases in soft costs for reasons beyond the control of the mortgagor or contractor, or correction of substantial errors by HUD.

Additionally, HUD, the Congress and the Federal courts have acknowledged that different rules may be and should be applied to the same program depending upon mortgagor-type. For example, the Congress in its creation of Section 221(d)(3) and 221(d)(4) of the National Housing Act has provided for 100 percent of replacement cost mortgages for nonprofit mortgagors, but only 90 percent mortgages for profit-motivated mortgagors under the same program. Further, the Congress had provided for higher mortgage limits for nonprofit mortgagors who develop multifamily housing under Section 221(d)(3) than for nonprofit mortgagors who develop the same housing under Section 221(d)(4). The Federal courts have held, ". . . nonprofit, no asset corporations were 'creatures of HUD,'" and have required HUD to assume liability for debts of nonprofit corporations on that basis, while, at the same time, acknowledging that HUD is not liable under similar circumstances for debts of profit motivated entities.

We have documented evidence that the competitive bidding requirement has saved money. On a project in our Boston Office's jurisdiction, the Borrower had negotiated with a contractor for a contract in the amount of 7.2 million. The job was later competitively bid. The same contractor bid $6.1 million and the contract was finally awarded at $5.785 million.

The above examples illustrate differences between various programs administered by this Department, some differences which arise from Congressional and Federal court action and others which result from HUD's rules. In conclusion, we believe it is both reasonable and consistent with Congressional and Federal court actions to have different rules apply to different housing programs so long as we continue to fulfill our mission to provide decent, safe and sanitary housing.

Question. Could you provide the Subcommittee with a description of the circumstances under which the Department will approve a loan or cost increase to correct subsurface problems that only become apparent after the start of construction, under the following programs: mortgage insurance, public housing; public housing turnkey; Section 202 with negotiation and Section 202 competitive bidding.

Answer. *Multifamily mortgage insurance and section 202.*—Current instructions regarding mortgage or loan increases in the multifamily mortgage insurance programs as well as Section 202 do not provide for mortgage or loan increases to correct subsurface problems that only become apparent after the start of construction. The Department's position has been that the owner is responsible for conducting prudent soils testing and providing the architect with the results which the architect would consider in the project design. We recently reconsidered this position and are currently developing new policy on this issue which will be applicable to the multifamily mortgage insurance programs as well as the Section 202 program regardless of the method by which the construction contract is awarded.

Public housing (Conventional).—The project construction documents, including soils reports, are expected to clearly indicate the conditions a contractor will encounter and the type and extent of work necessary to complete a project. If, during construction, sub-surface conditions differing from those defined in the documents are encountered, the extra costs resulting from work required to correct or adjust to the conditions would be reimbursable to the contractor from project funds through a change order process.

Public housing (Turnkey).—The developer is obligated under the Turnkey Contract of Sale to furnish a site and complete a project in compliance with HUD and local standards at a stipulated price. The soils tests, site engineering and project design are totally the responsibility of the developer. No adjustment in the contract price is allowed for modification to the design to correct or adjust for unanticipated subsurface problems encountered during construction.

Question. When a contractor reviews plans and specifications prior to submitting a bid, don't you agree that the contractor should look for any errors or omissions in the plans that could affect construction costs?

It is not uncommon for a bidder on a construction project to scrutinize plans to find errors, bid low, and then make its profit from the change orders required to correct the plans. How do you propose to avoid this situation in the 202 program?

Answer. Contractors preparing bids will look for any ambiguities in the bidding documents and request clarification before submitting bids. Not to do so would leave the contractor in the dangerous position of being the low bidder based on a misinterpretation.

We believe that our review plus the arms-length relationship between the owner and architect will result in a good set of contract documents. Our experience indicates that contractor involvement in the design phase has led to incomplete contract documents to provide for later change orders.

Question. Hearing witnesses presented information showing that even the most frugal of Section 202 sponsors will be unable to construct housing unless FMRs and interest rates are appropriately adjusted. How does HUD plan to deal with this problem?

Answer. We do not agree that there is a nationwide problem with respect to the feasibility of Section 202 projects. In fact, reports of Section 202 projects being infeasible due to FMRs are greatly exaggerated. So far this Fiscal Year, only two areas of the country (Fort Worth, Texas and the State of Georgia) have demonstrated that FMRs were too low based on market data and we have responded by increasing the FMRs in those areas. Our reviews of Section 202 projects have shown that, until the Department began to strictly enforce its cost containment policies and procedures, most Section 202 projects were designed with budgets in mind that required the use of the Assistant Secretary for Housing's prerogative to exceed the published FMRs by more than 110 percent. With our efforts to contain costs, we are finding that fewer projects need the Assistant Secretary's prerogative and yet, we are continuing to provide decent, safe and sanitary housing for elderly and handicapped families and individuals.

Where it can be demonstrated that increases in the FMRs for a given market area is warranted, we will continue to publish such increases. Further, the Assistant Secretary will continue to exercise his prerogative where justified.

Question. Wouldn't lowering interest rates be cheaper than making significant upward adjustments in the FMRs?

Answer. The primary means of financing new Section 202 loans is Treasury borrowing—for which HUD must pay interest at a rate determined by law. When the Department re-lends these funds to a sponsor of a housing project at a lower rate, it is losing money by doing so—and if it continues to do so for a long enough period, the Section 202 loan fund will eventually become insolvent.

Obviously, the debt service required for any given loan amount will be higher if the interest rate charged is higher, and therefore, the rents needed to support a project will go up if the full cost of Treasury borrowing is passed on to the project. However, since HUD subsidizes the rent under Section 8, the amount that tenants pay will be unaffected by the rate of interest charged. In effect, HUD pays itself a higher subsidy—higher outlays under Section 8 and a true reimbursement of borrowing costs to the Section 202 fund.

By law, Section 8 projects are controlled by Fair Market Rent limits and by requirement that the approved contract rents be comparable to unsubsidized rental housing in the community. Thus, it is possible that in some cases, the higher contract rents that would result from charging the full cost of Section 202 loans will push projects up against the Section 8 rent limits. However, even in these cases, HUD has regulatory authority to adjust the appropriate rent ceiling to take the higher cost of financing into account. We believe that adjustments of this sort, when necessary, would be more cost effective than a blanket lowering of the Section 202 loan rate.

Providing a hidden subsidy in the form of an arbitrary cap on the Section 202 interest rate will not only understate the true cost of the program (and threaten the solvency of the loan fund)—it will also mean less restraint on project costs. Unlike an adjustment to Section 8, which is restricted to financing costs only, the impact of

a lower Section 202 interest rate can potentially mean that more costly projects are built. In a ultimate sense, the cost of higher interest rates can be absorbed either through higher Section 8 funding or an arbitrary cap on the Section 202 loan rate—but the arbitrary cap on the Section 202 loan rate has several potentially adverse effects, including the possibility that the lower interest rate will translate into excess development costs and a more expensive project.

Question. HUD testimony discussed comparative studies made of the various federal housing construction programs and their costs to the federal government. Please provide this data for the hearing record.

Answer. The report is entitled, "Development Costs in Multifamily Housing Programs: Statistical Analysis," a copy of which is enclosed.

Question. The Subcommittee has received numerous reports that some area offices have been so badly damaged by HUD's personnel reduction policies that they can barely function. What is HUD's policy with respect to the training and replacement of personnel? How much money is available for this purpose?

Answer. The major reduction-in-force in the HUD Field Offices occurred at the end of FY 1983. Obviously, this coupled with the reorganization of the Field Offices that occurred at the same time caused a certain amount of displacement of Field staff; however, the new organization has been in place since October and the residual effects should be minimal.

There is no a separate staff for the Section 202 program, but rather a combined multifamily development staff which handles the Section 202 program as well as the other HUD multifamily housing programs. The staff allocations for the Field in 1984 were based on workload and the Section 202 workload was fully staffed. One component of our staff-year allocations in the Field is for training. For the Section 202 program, this component was approximately 7.2 staff-years, that is 2.7 percent of the total staff-year allocation or roughly $300,000.

For those Regions at or below current personnel ceilings, replacement of staff is a Regional prerogative, and for those who are above ceiling critical vacancies are handled on an individual basis in Headquarters.

Question. How many section 202 staff have been affected by the RIFs?

Answer. The Section 202 Field staff is not a separate organization and, therefore, it is not possible to separately identify Section 202 staff affected by the RIF. However, for the entire HUD Field staff approximately one in six individuals were affected, and only 200 individuals were actually separated out of the 9,100 individuals then in the Field.

Question. What specifically has been done to beef-up remaining Section 202 personnel?

Answer. Besides the ongoing training effort in the Field for those Offices, in particular, that have experienced difficulty processing multifamily housing, staff have been shifted from within the Office from other program areas to multifamily and in a few isolated instances staff has been detailed from other Regions to assist the multifamily workload.

Question. According to a recent University of Michigan study, the nation may need as many as 235,000 units of new housing each year over the next 20 years to meet the increasing demand for elderly housing. What role do you see for the Section 202 program in meeting this demand?

Answer. The Section 202 program is but one part of the Department's effort to meet the housing needs of the elderly. The private sector has greatly increased their production of multifamily housing, from a seasonably adjusted low of 287,700 starts in FY 1981 to a seasonably adjusted rate of 639,000 starts in February 1984. The private sector is thus able to meet the increased needs for new housing, and the issue is generally one of affordability, not a housing shortage. The Department does not believe the need is for new construction generally, but rather a need to supplement the rental payment for those with the greatest need. This rental supplement will be met by our Housing Voucher Program which will allow individuals to find appropriate housing in the private sector. The Section 202 program, on the other hand, will be available to meet the incremental need for new construction in particular markets where there may be a shortage of rental housing. The Section 202 program is not intended to be the single program at HUD for meeting the housing needs of the elderly.

Question. Are you contemplating any major changes in the Section 202 program?

Answer. There are no major changes contemplated in the Section 202 program.

Question. Is HUD willing to commit itself to continuing the Section 8 subsidy of 202 projects?

Answer. Yes, HUD intends to continue the Section 8 subsidy of the Section 202 program.

Question. Does HUD have any plans to open the Section 202 program up to limited dividend groups?

Answer. The Department has no plans at present to open the Section 202 program to limited dividend sponsors because the Appropriations Acts for Department require that only nonprofit sponsors be utilized. For FY 1985, in H.R. 5713, which was enacted on June 26, 1984, the provision in Title I(a)(4)(c) requires, "provided, that such commitments shall be available only to qualified nonprofit sponsors. . . ."

Question. Has HUD ever developed any estimates on what the loss in tax revenues would be if such a policy were to be impiemented?

Answer. No, the Department has not conducted such a study.

Question. During the Subcommittee's hearing, the National Council for Senior Citizens expressed serious concern about HUD action requiring withholding Section 8 HAP payments for the purpose of "prepaying" the projects monthly mortgage debt service payments. The manner in which this policy is being implemented raises the following questions: (a) If project owners do not accept the new withholding system, will future contract rent increase requests be denied, despite the legitimacy and justification of circumstances presented?

Answer. No. However, if any concessions or modifications of the HAP contract or Section 202 loan are requested in the future, agreement to the "off-set" procedure would be required as a condition of approval. (We do wish to clarify one misconception. The off-set of monthly payments out of the Section 8 HAP payments is not prepayment, but is payment for the current month owed to HUD under the amortization schedule.)

Question. Will HUD impose additional program and/or fiscal policy requirements that might not otherwise be imposed should the project owner not concur in the withholding action?

Answer. No. The borrower has a binding HAP contract and Section 202 note and mortgage. Unless the borrower requests modifications of those agreements, no additional requirements could be imposed.

QUESTIONS FROM CONGRESSMAN HAMMERSCHMIDT

Question. Since we are no longer constructing new public housing units and Section 8 (other than what is in the pipeline) and the private sector is not building many lower and moderate income housing units—how do you explain your request for only 10,000 units of Section 202?

Answer. Within the limited resources available for housing programs the Department has taken the position that the Section 202 program, while a very important effort, is also the most expensive program we operate. We, therefore, serve the greatest need with other programs and have thus limited our request to 10,000 additinal units of Section 202.

Question. How many units of Section 202 has HUD recaptured since 1980?

Answer. As of March 30, 1984, a total of 4,209 units have been recaptured.

Question. Could you provide us with some of the reasons for the recapture?

Answer. Sponsor was unable to develop a feasible project; sponsor did not proceed in a timely fashion; information requested by the Department was not provided; sponsor could not obtain an acceptable site or local opposition to the project.

Question. Could you provide the Subcommittee with a breakdown of these figures, including whether it was elderly or handicapped and the number of recaptures per field office?

Answer. Breakdowns showing the number of projects and units cancelled for elderly and handicapped by Fiscal Year and Field Office are enclosed. National and Regional summaries also are enclosed.

Question. What has the Department done formally to correct the lengthy time period for processing 202's in some field offices?

Answer. See enclosed copy of HUD Notice H 84-22, dated June 11, 1984, which presently is being printed and will be distributed shortly to all Field Offices.

Question. A letter was recently sent to Secretary Pierce from the American Association of Homes for the Aging which said that housing sponsors are finding it difficult to finance new projects because of the limits imposed by fair market rents. It said that a new HUD rule bases fair market rents on data that do not mirror the true costs associated with specialized housing for the elderly and handicapped. How would you respond to this?

Answer. We do not agree that there is a nationwide problem with respect to the feasibility of Section 202 projects. In fact, report of Section 202 projects being infeasible due to FMRs are greatly exaggerated. So far this Fiscal Year, only two areas of the country (Fort Worth, Texas and the State of Georgia) have demonstrated that

FMRs were too low based on market data and we have responded by increasing the FMRs in those areas. Our reviews of Section 202 projects have shown that, until the Department began to strictly enforce its cost containment policies and procedures, most Section 202 projects were designed with budgets in mind that required the use of the Assistant Secretary for Housing's prerogative to exceed the published FMRs by more than 110 percent. With our efforts to contain costs, we are finding that fewer projects need the Assistant Secretary's prerogative and yet, we are continuing to provide decent, safe and sanitary housing for elderly and handicapped families and individuals.

Where it can be demonstrated that increases in the FMRs for a given market area is warranted, we will continue to publish such increases. Further, the Assistant Secretary will continue to exercise his prerogative where justified.

In accordance with the statute and the regulations, Fair Market Rents are based on market data which reflects what a renter is willing to pay for a comparable, unassisted unit of similar structure type and size which offers similar amenities. Fair Market Rents are not based on the cost of construction.

Question. With respect to processing times, does the data gathered from HUD only reflect the time that a complete Section 202 application has been submitted to HUD and is being processed?

Answer. No; however long delays on the part of the sponsor in providing clarification or missing documentation probably would result in suspension of processing and the project would be placed in a preliminary reject status. Thus, such time delays on the part of the sponsor would not be reflected in the processing time.

Question. Does HUD keep a record of "sponsor time"?

Answer. No. Sponsor time is not formally tracked in HUD's processing reports. However, each HUD Field Office could identify on a project-by-project basis the amount of "sponsor time."

Question. Accordingly to American Association of Homes for the Aging (AAHA) FMRs were lowered in many areas of the country. How can HUD justify lowering FMRs when many 202 projects are infeasible because FMRs are too low?

Answer. We do not agree that many Section 202 projects are infeasible. It is true that FMRs for some areas of the country have been lowered. FMRs are not based on cost of construction, but reflect the rent, including utilities (except telephone), ranges and refrigerators, parking, and all maintenance, management, and other essential housing services which would be required to obtain, in a particular market area, privately developed and owned (i.e., unsubsidized) newly constructed or substantially rehabilitated rental housing of modest design with suitable amenities. In areas where there is a soft market for rental housing, e.g., areas overbuilt with rental housing which must compete with condominiums being offered for rent due to slow sales, rents that can be obtained in the marketplace will not normally support the cost of new construction and since FMRs are based on market data, our review may result in lower FMRs than those previously published. In such areas, housing vouchers and/or existing housing certificates better address the needs of potentially assisted families and individuals.

Question. According to AAHA, HUD recently issued instructions that will require 202 borrowers to infuse additional funds to cover unanticipated cost increases on projects where construction is by negotiated sole source contract?

How can HUD justify such actions in these projects when borrowers on projects where construction is by competitive bid are not required to do so?

Is this HUD's way of effectively requiring competitive bidding in all cases?

Answer. HUD has issued instructions requiring an addendum to the construction contract on negotiated sole source contracts whereby the contractor agrees that it will not assert any claim against the Owner or HUD in connection with increased costs resulting from changes in the drawings and specifications arising out of errors, omissions and deficiencies in the drawings and specifications. (See copy enclosed.)

As you can see, not additional requirement has been imposed on the Section 202 Borrower.

Question. Why has HUD eliminated automatic annual adjustments for Section 202 projects?

Answer. The automatic annual adjustment factor was eliminated because it resulted in "injusted enrichment" to the nonprofit sponsor. Because the Section 202 projects must be operated on a nonprofit basis and the budgets are subject to HUD approval, the automatic annual adjustments were resulting in Section 8 subsidies far beyond that necessary to maintain an efficient, well-run project. Excess project income of several hundred thousand dollars resulted in some extreme cases after only a few years of operation. Those Section 8 funds can be used more effectively

than languishing in project reserve accounts or sponsor's inflating their operating budgets with unnecessary expenses or services just to use the additional funds.

Question. Why is HUD proposing an increase in the Section 202 interest? (According to Conroy/McIver, a 1 percent interest rate increase would actually cost the government $120,000,000 in budget authority.)

Answer. See response to Congressman Bonker's Question 5b.

Question. Explain the Department's rationale for requesting the debt service payments be offset from HAP payments. What will be the negative impact on projects of HUD's proposed off-set of Section 8 payments by the amount of debt service payment?

Answer. By requiring use of the off-set procedure, we are improving cash management practices and are operating more efficiently. Many sponsors are continually several months delinquent in their monthly payments. The off-set procedure is expected to substantially reduce the debt collection problem. If a sponsor is experiencing rent-up problems, the Field Office would notify the Regional Accounting Division to cease the off-set procedure until further notice. Thus, if the Section 8 funds were necessary for basic project operation, and lack of such funds would produce a negative impact, the off-set procedure would not be used.

Question. Why is HUD not requiring borrowers to proceed to final closing and commence amortization?

Answer. Presently, there is no incentive for the borrower to go to final loan closing and begin amortization. This has been particularly frustrating to the Department in terms of our increased emphasis on debt collection and our efforts to reduce fraud, waste and mismanagement. We currently are exploring several alternatives which we believe may be effective in getting projects to final loan closing. Most, if not all, of these would require regulatory amendments.

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS

	Elderly		Handicapped	
	Projects	Units	Projects	Units
Region All—Field office, All [1]				
Fiscal year:				
1980	6	379	20	285
1981	6	443	34	591
1982	9	505	28	327
1983	13	740	38	474
1984 (through Mar 30, 1984)	5	300	9	165
Total	39	2,367	129	1,842
Region 1—Field office, All				
Fiscal year:				
1980				
1981			1	10
1982			7	62
1983	2	41	7	78
1984 (to date)			1	16
Total	2	41	16	166
Region 1—Field office, Boston, MA				
Fiscal year:				
1980				
1981			1	10
1982			2	25
1983	1	24	3	38
1984 (to date)			1	16
Total	1	24	7	89
Region 1—Field office, Manchester, NH				
Fiscal year:				
1980				

[1] Some offices have had no cancellations since fiscal year 1980. Only those offices which have cancellations are included in the attached sheets.

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
1981				
1982			3	18
1983			4	40
1984 (to date)				
Total			7	58
Region I—Field office, Hartford, CT				
Fiscal year:				
1980				
1981				
1982				
1983	1	17		
1984 (to date)				
Total	1	17		
Region I—Field office, Providence, RI				
Fiscal year:				
1980				
1981				
1982			2	19
1983				
1984 (to date)				
Total			2	19
Region II—Field office, All				
Fiscal year:				
1980	3	181		
1981	4	357	4	42
1982	1	102	9	99
1983			1	6
1984 (to date)	1	42	1	5
Total	9	682	15	152
Region II—Field office, Puerto Rico				
Fiscal year:				
1980				
1981	3	207		
1982				
1983				
1984 (to date)	1	42		
Total	4	249		
Region II—Field office, Buffalo				
Fiscal year:				
1980	1	28		
1981			1	6
1982	1	102	4	37
1983				
1984 (to date)				
Total	2	130	5	43
Region II--Field office, New York				
Fiscal year:				
1980	2	153		
1981			1	24
1982				
1983			1	6

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
Total	2	153	2	30
Region II—Field office, Newark				
Fiscal year:				
1980				
1981	1	150	2	12
1982			5	62
1983				
1984 (to date)			1	5
Total	1	150	8	79
Region III—Field office, All				
Fiscal year:				
1980	1	100	3	75
1981			7	112
1982	2	65	1	10
1983				
1984 (to date)			2	16
Total	3	165	13	213
Region III—Field office, Philadelphia				
Fiscal year:				
1980				
1981			1	48
1982			1	10
1983				
1984 (to date)			2	16
Total			4	74
Region III—Field office, Pittsburgh				
Fiscal year:				
1980	1	100		
1981			1	6
1982				
1983				
1984 (to date)				
Total	1	100	1	6
Region III—Field office, Baltimore				
Fiscal year:				
1980				
1981				
1982	1	35		
1983				
1984 (to date)				
Total	1	35		
Region III—Field office, Washington				
Fiscal year:				
1980				
1981			2	34
1982				
1983				

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
1984 (to date)				
Total			2	34
Region III—Field office, Charleston				
Fiscal year:				
1980			3	75
1981			2	19
1982	1	30		
1983				
1984 (to date)				
Total	1	30	5	94
Region III—Field office, Richmond				
Fiscal year:				
1980				
1981			1	5
1982				
1983				
1984 (to date)				
Total			1	5
Region IV—Field office, All				
Fiscal year:				
1980			1	24
1981			1	14
1982	1	100	1	12
1983	2	198	8	116
1984 (to date)				
Total	3	298	11	166
Region IV—Field office, Louisville				
Fiscal year:				
1980				
1981				
1982			1	12
1983			1	9
1984 (to date)				
Total			2	21
Region IV—Field office, Jacksonville				
Fiscal year:				
1980				
1981			1	14
1982	1	100		
1983	2	198	4	55
1984 (to date)				
Total	3	298	5	69
Region IV—Field office, Jackson				
Fiscal year:				
1980				
1981				
1982				
1983			1	10
1984 (to date)				
Total			1	10

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
Region IV—Field office, Greensboro				
Fiscal year:				
1980				
1981				
1982				
1983				
1984 (to date)			2	42
Total			2	42
Region IV—Field office, Columbia				
Fiscal year:				
1980			1	24
1981				
1982				
1983				
1984 (to date)				
Total			1	24
Region V—Field office, All				
Fiscal year:				
1980	1	50	12	149
1981	1	40	5	92
1982	2	90	5	70
1983	4	211	12	175
1984 (to date)				
Total	8	391	34	486
Region V—Field office, Minnesota				
Fiscal year:				
1980			5	40
1981	1	40		
1982				
1983				
1984 (to date)				
Total	1	40	5	40
Region V—Field office, Illinois				
Fiscal year:				
1980				
1981				
1982			2	20
1983	2	140	5	82
1984 (to date)				
Total	2	140	7	102
Region V—Field office, Indiana				
Fiscal year:				
1980	1	50	1	8
1981			2	15
1982	1	60	1	20
1983	1	41	1	10
1984 (to date)				
Total	3	151	5	53
Region V—Field office, Wisconsin				
Fiscal year:				
1980			4	63

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
1981			1	25
1982	1	30		
1983	1	30	4	54
1984 (to date)				
Total	2	60	9	142
Region V—Field office, Grand Rapids				
Fiscal year:				
1980			1	14
1981				
1982			1	6
1983			1	18
1984 (to date)				
Total			3	38
Region V—Field office, Detroit				
Fiscal year:				
1980			1	24
1981			2	52
1982				
1983			1	11
1984 (to date)				
Total			4	87
Region V—Field office, Cleveland				
Fiscal year:				
1980				
1981				
1982			1	24
1983				
1984 (to date)				
Total			1	24
Region VI—Field office, All				
Fiscal year:				
F1980				
1981	1	46	7	211
1982	1	40	1	12
1983	1	120	5	51
1984 (to date)	3	158	3	82
Total	6	364	16	356
Region VI—Field office, Albuquerque				
Fiscal year:				
1980				
1981				
1982	1	40		
1983			1	12
1984 (to date)	1	5		
Total	2	45	1	12
Region VI—Field office, Houston, TX				
Fiscal year:				
1980				
1981			?	22
1982				
Fiscal year 1983			2	18

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
Fiscal year 1984 (to date)			1	24
Total			5	64
Region VI—Field office, San Antonio, TX				
Fiscal year:				
1980				
1981			3	130
1982				
1983				
1984 (to date)			1	24
Total			4	154
Region VI—Field office, Oklahoma City, OK				
Fiscal year:				
1980				
1981	1	46		
1982				
1983				
1984 (to date)			1	34
Total	1	46	1	34
Region VI—Field office, Dallas, TX				
Fiscal year:				
1980				
1981			2	59
1982				
1983	1	120		
1984 (to date)	2	153		
Total	3	273	2	59
Region VI—Field office, Little Rock, AR				
Fiscal year:				
1980				
1981				
1982				
1983			1	10
1984 (to date)				
Total			1	10
Region VI—Field office, New Orleans, LA				
Fiscal year:				
1980				
1981				
1982			1	12
1983			1	11
1984 (to date)				
Total			2	23
Region VII—Field office, Regional Total				
Fiscal year:				
1980			1	9
1981			1	12
1982	2	108	2	31
1983	1	41	2	24
1984 (to date)			1	21
Total	3	149	7	97

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
Region VII—Field office, Kansas City				
Fiscal year:				
1980			1	9
1981			1	12
1982			2	31
1983	1	41	2	24
1984 (to date)				
Total	1	41	6	76
Region VII—Field office, St. Louis				
Fiscal year:				
1980				
1981				
1982				
1983				
1984 (to date)			1	21
Total			1	21
Region VII—Field office, Omaha				
Fiscal year:				
1980				
1981				
1982	2	108		
1983				
1984 (to date)				
Total	2	108		
Region VIII—Field office, Denver regional office				
Fiscal year:				
1980			1	12
1981			1	24
1982				
1983				
1984 (to date)				
Total			2	36
Region IX—Field office, regional totals				
Fiscal year:				
1980	1	48		
1981			2	25
1982			1	24
1983	2	94	3	24
1984 (to date)	1	100	1	25
Total	4	242	7	98
Region IX—Field office, Los Angeles				
Fiscal year:				
1980				
1981			2	25
1982			1	24
1983	1	56	2	17
1984 (to date)	2	138	1	25
Total	3	194	6	91
Region IX—Field office, Honolulu				
Fiscal year:				
1980	1	48		

SECTION 202 PROJECTS CANCELED IN FISCAL YEAR 1980 AND SUBSEQUENT FISCAL YEARS—
Continued

	Elderly		Handicapped	
	Projects	Units	Projects	Units
1981				
1982				
1983			1	7
1984 (to date)				
Total	1	48	1	7
Region X—Field office, totals for region				
Fiscal year:				
1980			2	16
1981			5	49
1982			1	7
1983	1	35		
1984 (to date)				
Total	1	35	8	72
Region X—Field office, Portland				
Fiscal year:				
1980			2	16
1981			1	10
1982			1	7
1983				
1984 (to date)				
Total			4	33
Region X—Field office, Seattle				
Fiscal year:				
1980				
1981			4	39
1982				
1983	1	35		
1984 (to date)				
Total	1	35	4	39